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"the land is mine"

FROM TENANCY TO FAMILY FARM OWNERSHIP

By Paul V. Maris

AGRICULTURE MONOGRAPH NO. 8

Issued November 1950

UNITED STATES DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

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FOREWORD

THE FAMILY and the home are the twin evangels of civilization. They are the basic units of every well-ordered society. They are as intimately linked as supply and demand.

Every living thing wants a place to stay. Our happiest memories cluster around the old home, and we leave it with the hope of establishing one of our own. The sentiment is universal. The literature of the ages is filled with, and the songs we love best were inspired by, thoughts of home. The immortal ballads like Home, Sweet Home and Little Gray Home in the West were not inspired by sentiments produced by a rented shack with rental payments on a monthly or an annual or a crop-sharing basis, but by the thoughts of home in the real sense of the word.

When the pioneers came to this country, the ring of the first ax in the wilderness was to construct a cabin in which to live. The western settlements were by people who wanted a place to call their own.

These early day settlers, through their thrift, enterprise, and character, planted the mudsills of the governmental structure we have today.

The growth of the country was rapid. It gradually became more and more industrialized. It increased enormously in wealth. From simple beginnings it increased in power and position.

But in the process of transformation our country neglected the vital element of home ownership. Farm tenancy began to increase. This was aggravated, especially in the South, by the War between the States. It gradually increased like a creeping paralysis until a majority of the farms of the United States were operated by tenants.

Farsighted men and women, realizing the danger to national stability inherent in this growing problem, years ago began a discussion in the hope of finding a solution.

The present legislation is the outgrowth of this discussion. It was realized that as this condition had been developed over a long period of years there could be no sudden remedy. In spite of the staggering nature of the problem a program of financing the purchase of family type farms by worthy tenants was inaugurated.

In order to give the best assurance of success in the modest program that was started, provision was made for a careful screening of applicants by local committeemen who were familiar with community conditions and people in their respective neighborhoods.

The success of the program so far has amazed even the most sanguine of those who believed in its merit. The great desire of tenants to become a part of the movement, the numerous payments of installments before they were due by those who were fortunate enough to be selected and their

desire to make good in order that their neighbors and friends might have a similar opportunity, seems almost a Horatio Alger story. It is an investment that pays dividends in national strength.

A long time ago it was recorded in the Book of Books "Your young men shall see visions and your old men shall dream dreams." The desire for a home is both a vision and a dream for every individual, young or old.

The story is told in the succeeding chapters. It should interest every American.

MARVIN JONES,
Chief Judge, U. S. Court of Claims,
Co-author Bankhead-Jones Farm Tenant Act.

THIS BOOK

This book describes an effort to improve land tenure in the United States. It tells how the Federal Government has helped aspiring farm tenants to acquire a stake in the land and become stable stockholders in our democracy; how disadvantaged but industrious farmers have been enabled to overcome the handicaps of poverty inevitably associated with inadequate farms; and how good citizenship has been nurtured where incentive for good citizenship has been lacking. It deals with an effort to attain and preserve in our country a relationship between people and land that is consistent with the general welfare. It tells how an important public undertaking has been conceived, planned, and executed in a free democracy. It explores the possibilities of greater achievement through the expansion of that undertaking.

The Congress wisely provided that the Farm Ownership program authorized by the Bankhead-Jones Farm Tenant Act of 1937 should first be tried out in a small way to see how it would work. An appraisal of results now seems warranted. More than 60,000 well-secured loans, totaling almost $400,000,000, have been made for the purchase of family farms by tenants or for the enlargement or development of undersized or underdeveloped farms by their owners. During the process important social and economic principles have been tested. The scene of the action has been the 48 States, Puerto Rico, Hawaii and Alaska. The chief end sought has been the successful operation of their own farms by worthy families. The chief device for achieving that end has been supervised credit.

There is an evident need for a more comprehensive treatise on the Farm Ownership program than is presently available. Agricultural leaders, farm policy makers, legislators, farmers and all who work with them should benefit by the facts that are here presented.

Research studies related to the Farm Ownership program are being initiated in many States by graduate students in land-grant colleges and elsewhere. Such research should be facilitated by an authentic source of reference such as this is designed to be. Employees of the Farmers Home Administration need to be familiar with what has gone before and with the basic concepts underlying current programs and policies in order to cope intelligently with new problems as they arise. In recent years visitors from China, Japan, the Philippines, New Zealand, India, Egypt, Denmark, and several South American countries have sought information about the Farm Ownership program. Future visitors should find such information in this book.

". . . the land is mine . . ." begins with the story of the passage of the Farm Tenant Act and the need for such legislation. It then tells how an

organization was created and how policies were formulated to carry out that act. Subsequently, it discusses getting deserving families established on the right kind of farms and engaged in the right kind of farming. It lists and describes the distinctive features of Farm Ownership loans; defines and discusses family farms and supervised credit; documents borrower progress; reviews a survey of the attitude of borrowers toward supervision; and sets forth the role of State and county committees in making loans and working with borrowers. The concluding chapter evaluates achievements and looks to the future.

Well-documented facts underlie the book's text. Their sources are many. They include congressional records, reports of congressional investigations, reports of hearings before congressional appropriation committees, and reports of the Farmers Home Administration. The statistical files of FHA's Finance and Budget Divisions have been drawn upon. Its procedural and correspondence files have been freely consulted. Much use has been made of the Farm Ownership Division's own documentary records—its progress reports recording early history, its divisional letters and its conference journals. In addition the author has drawn upon experience gained in directing the Farm Ownership program for more than 11 years during which he was privileged to observe its operations in Washington, in field offices, and on the farms of many borrowers.

A deep debt of gratitude is acknowledged to Dillard B. Lasseter, Administrator of the Farmers Home Administration, whose insight and understanding made the writing of this book possible. Others in the Department of Agriculture to whom thanks are due include: L. F. Andrews, Kenneth L. Backman, Howard Bertsch, Philip S. Brown, Howard V. Campbell, Forrest E. Clements, Frank Dawson, Louis J. Ducoff, Frances I. Fox, L. H. Hauter (deceased), Frances K. Hunt, S. S. Landess, Wolf I. Ladejinsky, Harold C. Larsen, James E. Lee, Samuel Liss, Wilson Longmore, Almon T. Mace, Paul D. Maynard, Louis D. Malotky, Ralph Picard, James C. Peterson, Raymond C. Smith, Raub Snyder, Carl C. Taylor, M. S. Timmins, Jr., C. H. Van Natta, Lawrence J. Washington, O. V. Wells, Hiram L. Welsh, and E. H. Wiecking.

Mrs. Rosa E. Coates prepared the manuscript for ". . . the land is mine . . ." with painstaking care and unusual skill. Marshall D. Harris of B. A. E. has given advice and counsel of great value. Special thanks are due Harold E. Christie of FHA's Information Staff who has devoted many hours to reading preliminary drafts and offering advice relative to style, arrangement, and construction. His help has been invaluable.

P. V. M.

May 19, 1950.

TABLE OF CONTENTS

	Page
Foreword by Judge Marvin Jones, coauthor of the act	III
This book—The author's introductory statement	V
Chapter I. The Bankhead-Jones Farm Tenant Act	1
II. The first year	17
III. The Farmers Home Corporation Board	27
IV. State and county committees	39
V. Distinctive features of farm ownership loans	69
VI. The farm ownership family	87
VII. Farm ownership farms	117
VIII. Upper and lower limits on farm ownership loans	165
IX. Improving and developing farms	189
X. Supervising farm ownership borrowers	211
XI. Variable payments	251
XII. Legal and technical aspects of making and servicing farm ownership loans	277
XIII. Attitudes of farm ownership borrowers	297
XIV. Record of borrowers' progress	317
XV. Capitalizing upon experience	337
Appendix A. Chronology of significant events directly or indirectly related to program authorized by the "Farmers Home Administration Act of 1946"	357
Appendix B. Provisions of the Bankhead-Jones Farm Tenant Act, as amended, pertinent to the farm ownership program	360
Appendix C. List of basic farm ownership forms	374
Index	375

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Few pieces of legislation have been so well-designed to cope with a basic agricultural problem as the Bankhead-Jones Farm Tenant Act. It has operated effectively and with great service to thousands of farm families for the past 12 years. All rural America, in fact the entire Nation, has benefited.

CHARLES F. BRANNAN,
Secretary of Agriculture.

* * * * *

Chapter I

THE BANKHEAD-JONES FARM TENANT ACT

THE BANKHEAD-JONES FARM TENANT ACT may be said to have had its origin in a national tradition. That tradition is a belief in the economic and social values of owner operated family farms. To such farms in no small measure the great middle class in American society owes its origin. Upon such farms in no small measure the middle class must depend for continued influence in shaping the destinies of our democracy.

Among the founding fathers Thomas Jefferson was an outstanding exponent of the virtues of family farms. He was expressing the prevailing views of his time when he said "the small land holders are the most precious part of a state." Abraham Lincoln, when he signed the Homestead Act of 1862, was acting in furtherance of the land policy established by the founding fathers and the philosophy expressed by Thomas Jefferson. The same may be said of Theodore Roosevelt when he signed the Reclamation Act of 1902 and Woodrow Wilson when he signed the Federal Farm Loan Act of 1916.

In more recent years farm organizations have made commitments in favor of farm ownership and of family farms. A resolution adopted by the American Farm Bureau Federation at its annual meeting in Chicago in December 1935 contained the following statement: "We recognize the tremendous importance of home ownership in agriculture. In many districts, the large percentage of tenancy is resulting in unwholesome economic and social conditions. There is need for making it possible for worthy tenant farmers on good land eventually to become land owners."

Addressing the National Grange at its meeting in Grand Rapids, Mich., November 10, 1943, National Grange Master A. S. Goss said, "The best interests of the Nation will be served if a high percent of our farms are owner operated." The National Farmers Union has said, "We repeat our request for a congressional declaration that the national policy is to maintain the family type farm as the pattern of American farming and that such policy be established and enforced now to insure maximum production and protect our democracy."

A joint meeting of representatives of the United States Department of Agriculture and land-grant colleges held in Milwaukee, Wis., in July 1943, adopted the following statement: "We believe the scales of public policy should be tipped in favor of family farms that are efficiently operated and that yield a satisfactory level of living." In a report dated October 1944 a Committee on Post War Policy of the Association of Land-Grant Colleges and Universities said: "The family type farm should remain the basis on which American agriculture typically is organized."

Our great religious denominations, Protestant and Catholic alike, have many times on many occasions affirmed and reaffirmed their commitment to the preservation of family farms because of their contribution to the spiritual and social values for which the church stands.

But, despite a well-established national tradition and despite all the laws and public policies designed to foster the ownership of family farms, farm tenancy in the United States had increased to such a point by 1936 that President Franklin D. Roosevelt called upon his Secretary of Agriculture to head a special committee to investigate the situation and report on "a long-term program of action to alleviate the shortcomings of our farm tenancy system."

On February 13, 1937, the Committee on Farm Tenancy transmitted its report to the President. Three days later the President transmitted it to the Congress and in so doing stated in part: "The facts presented in this report reveal a grave problem of great magnitude and complexity. The American dream of the family size farm, owned by the family which operates it, has become more and more remote. The agricultural ladder, on which an energetic young man might ascend from hired man to tenant to independent owner, is no longer serving its purpose."

The Congress Initiates Action

Action designed to cope with the insecurity of tenure on the land and evils associated with it was initiated by the Congress even before the report of the President's Committee on Land Tenure was received. This was indicated by Senator John H. Bankhead, July 1, 1937, when he opened the Senate debate on "A Bill to Establish the Farmers Home Corporation" (S. 106). The Senator reported that a bill similar to that under consideration had passed the Senate 2 years previously but had failed to pass the House. Significantly it carried an appropriation of $50,000,000 for immediate use and authorized a billion-dollar bond issue for "long range permanent farm tenancy adjustment." Viewing the matter in retrospect it appears fortunate indeed that the act finally passed provided for launching the program on a more modest scale.

The Issues Are Debated by the House

The painstaking consideration accorded by the Congress to the bill which finally became the Bankhead-Jones Farm Tenant Act is revealed by Congressman Pierce of Oregon, who said: "The Committee on Agriculture of the House spent over 12 weeks, sitting almost every day, considering practically nothing but tenancy. It was the longest discussion of one phase of the farm situation that has occurred in that committee since I have been a member of it." Principal debate on the bill (H. R. 7562) in the House of Representatives occurred on June 29, 1937. In opening the debate Congressman Marvin Jones of Texas emphasized the antiquity and complexity of the tenancy problem. He also emphasized the importance of starting in a gradual way to cope with the problem with a view to expanding as experience might suggest.

Because of its eloquence, its portrayal of the human values involved and the profound effect which it had upon the succeeding debate as indicated

by repeated reference to it, parts of the statement made by the Speaker of the House, William B. Bankhead, brother of the Senator whose name is identified with the act, is quoted herewith:

It has been said, and argued with some reason, that if a farmer is of any value, if he has any initiative, if he has any backing and capacity, if he has any ability, he can get along, he can borrow money, he can make his way without any governmental assistance; but those of us, Mr. Chairman, who are intimately familiar with this problem, know that that is not always true. I may call your attention to the fact that down in my section of the country, and especially in the hill sections of the South, some of these poor tenant farmers, by descent, are of the best blood of this Republic, sons of the Cavaliers and of the Huguenots, who moved into that section of the country, and decade after decade, because of disadvantages to which they were subjected, which I shall not have the time now fully to enumerate, from generation to generation they have gone from bad to worse in their efforts to sustain themselves according to the traditions and standards of their ancestors; but the very system and environment by which they have been surrounded has made it absolutely impossible . . .

I wish that some of you could visit some of the tenant farms in my section of the country, both white and colored, and see the desperate and hopeless situation by which they have been submerged, I claim, not entirely in all cases because of their own incapacity, but by reason of these circumstances to which I have referred, lack of credit facilities, poor prices year after year for their products, the isolation of their families from contact with their neighbors, their inability to form cooperative associations and to assemble themselves into unions as those in the industrial centers have done for the protection of their interests.

And there stands a desolate, hopeless, dejected man, working some other man's property, pillaging it, despoiling its rich resources by virtue of the fact that it is not his, but some other man's, and at the end of the year, when they cast up the account, this man who has worked in season and out of season during the whole crop season finds himself with no profit with which to go through the winter, with nothing with which to buy magazines, medicines, or comforts for his family . . .

What is the ultimate success of farming in this country? The purchasing power in the aggregate of the producers of the country. And when you deprive a man, as has been suggested, of the impulse and the passion to succeed, that is generated by the consciousness that he is working on his own acres, as the gentleman from Texas so well said, "You hasten tragedy, for there is something in the very thought and sentiment of ownership that seems to give some type of almost divine afflatus to the efforts of a man, no matter how humble he may be." Do you own a farm, do you own a lot in the city, have you fee simple title to your own property? Subconsciously the satisfaction is great to go out on your own acres, on your own land, put your foot down upon it, look up into the sky and say this, thank God, this little bit is mine. [Applause.] But not so with these drifters, these unhappy, these distressed men. And they are the men—there are 3,000,000 of them in the United States of America out of our total farm population—whom we are seeking in this very limited approach to undertake ultimately to salvage and save and "rebuild in them the music and dream," to give to them as far as possible that feeling of ownership, of their own, which I have so feebly undertaken to express.[1]

[1] Congressional Record, June 29, 1937.

FIGURE 1.—Human erosion is evident where people who live by the land have no stake in the land. Preventing the social and economic consequences of a homeless rural class is an important function of government. Ownership of family farms is a remedy. Shown are (1) a typical migrant laborer, (2) a family moving from crop to crop without any opportunity to provide social, educational, or religious opportunity for their children, and (3) a sharecropper looks at the soil erosion which has helped cause his own human erosion.

As the debate on the bill progressed, two general criticisms were leveled against it. First, that tenancy is but a sympton of underlying causes such as inadequate prices for farm products and land speculation, burdensome taxes, high interest rates and high cost of transportation. This view was countered by the argument that, notwithstanding many contributing causes, tenancy is in itself a problem of sufficient importance to merit special legislation.

Secondly, the bill was attacked time and again because of its inadequacy. The sharp conflict of views over this issue was reflected by the statements of Congressman Lemke of North Dakota and Congressman Greenwood of Indiana.[2] Congressman Lemke, obviously dismayed by the meagerness of the loan authorizations contained in the bill said, "I am surprised to hear so much fuss about nothing. If ever a mountain labored and produced a mouse this bill is it. We have heard a lot of lip service that we are going to make farm tenants farm owners. In the light of that lip service this bill is a joke and a camouflage."

Congressman Greenwood supported the contenders for a modest beginning in these words: "This bill will help to preserve the homes on the farms and will help to build a future civilization of home owners, and while it is a modest beginning I think it is a move in the right direction—if Congress finds that the program is working out satisfactorily the amount can be increased from time to time." Congressman Clifford Hope, of Kansas, shared this view, declaring: "There is something to be said on behalf of a careful and cautious approach. We have 2,800,000 farm tenants. If we were to spend only $5,000 in putting each one of them on a farm, it would mean the expenditure of $14,000,000,000. However, I think we can, through this proposed legislation, meager and inadequate as it may be, demonstrate within the period of a few years whether or not this is the proper method of approach. . . ."

Amendments to H. R. 7562 Rejected by the House

Particularly revealing were the amendments rejected by the House and the debate centering around them. The amendments are listed below together with the principal points made by their supporters and their opponents.

1. Mr. Boileau (Wisconsin). Moved a substitute bill setting up a "Farmers Security Corporation" with $5,000,000,000 of capital stock subscribed by the Treasury. This corporation was to purchase land, lease it to tenants or sharecroppers for a period not to exceed 5 years and then sell it to those who succeeded during the "trying out period." Chairman Jones called attention to the impractability of appropriating $500,000,000 for the current year and urged defeat of the amendment. The vote was "ayes" 12, "nays" 50.

2. Mr. Mahon (Texas). An amendment making the Farm Credit Administration responsible for administering the act.

In supporting his amendment Mr. Mahon said, "That agency (Farm Credit Administration) has already lent during the past 4 years to 3 million farmers more than $4,000,000,000. It is operating in all of the 3,059 agri-

[2] Preliminary debate reported in Congressional Record of June 28, 1937.

cultural counties in this country, and in view of the difficulty of this credit problem I think we had better turn it over to this agency." In opposing the Mahon amendment, Mr. Jones said: "Governor Myers (of the Farm Credit Administration) had reported that it would tend to injure very greatly the accomplishments of his administration which must sell the obligations of the Federal Land Bank in the open market." The vote by which the amendment was rejected is not recorded.

3. Mr. Crawford, of Michigan, introduced an amendment reducing the amount authorized to be appropriated the second year from $25,000,000 to $15,000,000 and reducing the amount authorized to be appropriated the third year and each year thereafter from $50,000,000 to $25,000,000. This amendment was rejected.

4. Mr. Coffee, of Nebraska, introduced an amendment limiting loans to 90 percent of the purchase price of the farm, thus requiring the borrower to make a 10-percent down payment. This amendment lost by a vote of 18 ayes and 37 noes.

5. Mr. Mahon, of Texas, introduced an amendment to Mr. Coffee's amendment to place the limit on the amount to be loaned for the purchase of a farm at 95 percent of the price, thus requiring the borrower to make a 5-percent down payment. In opposing Mr. Mahon's amendment, Mr. Jones asked: "Is it not infrequently a sounder loan to lend 100 percent to a man who has equipment and machinery to operate a farm than 95 percent to a man who does not have such equipment?" The amendment lost by the close vote of 58 ayes and 62 noes.

6. Mr. Boileau introduced an amendment changing the interest rate from 3½ to 1½ percent, but it was rejected.

7. Mr. Mills, of Louisiana, introduced an amendment providing that if farm tenant, farm laborer, sharecropper has ever engaged in farming he will be eligible for a loan. The section which he sought to amend reads "only farm tenants, farm laborers, sharecroppers, and others who obtain or recently obtained the major portion of their income from farming operation shall be eligible to receive the benefits of this title." Had Mr. Mills' amendment prevailed, it would have opened the way for financing a "back to the land movement," but the amendment was defeated.

8. Mr. Mahon introduced an amendment limiting loans to individuals to $6,500. In supporting his amendment, Mr. Mahon said, "The easiest way to get a man into trouble is to lend him too much money. My amendment is right in principle and certainly since we have so little to lend in each county under the appropriation provided for this measure we ought to adopt this amendment providing that no loan under this title shall exceed $6,500." In opposing the amendment, Mr. Jones said: "I am in thorough accord with the purposes the gentleman has in mind, but we think we have a much lower limitation than suggested by the gentleman. We discussed that in committee. We talked about $2,500 and $3,500, but we found that the size of the farms varied so greatly we could not put on a specific limitation because what would be fair as applied to one section is not fair as applied to another." In opposing the amendment, Mr. Lucas, of Illinois, said: "The records of the hearings disclosed that it will take from

$12,000 to $16,000 to finance adequately the purchase of the average farm in my part of Illinois as contemplated under this bill." The vote by which the amendment was rejected is not recorded.

9. Mr. Biermann, of Iowa, introduced an amendment authorizing the Secretary of Agriculture to supply the beneficiaries of the bill for a period of 5 years with advice and support so that they may have the best opportunity possible to succeed. In supporting his amendment Mr. Biermann said: "In this amendment we propose that the Secretary of Agriculture out of the experience accumulated in that Department for which we appropriate millions of dollars and out of the experience of the Extension Bureau and the State agricultural colleges shall supply the beneficiaries of this bill for a period of 5 years with advice and supervision so that they may have the best opportunity possible to succeed in the operation of their farms."

In opposing this amendment Mr. Rankin of Mississippi said: "Why turn these farmers over to somebody who could not make a living on the farm himself?" Mr. Cooley, of North Carolina, said: "I believe the language of the bill is sufficiently broad in scope to authorize the Secretary of Agriculture to require the tenant whom we are seeking to aid to use modern farm methods and to comply with the Soil Conservation Program and protect the soil fertility." The vote by which the amendment was rejected is not recorded.

10. Mr. Biermann introduced an amendment to "provide that the borrower shall not voluntarily assign, sell, or otherwise transfer the farm or any interest thereunder without the consent of the Secretary and provide that upon involuntary transfer or sale the Secretary may declare the amount unpaid immediately due and payable and to further provide that upon satisfaction of the borrower's obligation, but not less than 20 years after the making of the loan he shall be entitled to the farm free of any estate or property interest retained by the Secretary to secure the satisfaction of the obligation."

In supporting his amendment Mr. Biermann said it "provides that for 20 years after the contract has been entered into the beneficiary shall continue as an owner-operator and shall not become a speculator. In case of an untoward event the Secretary has the right to allow the man to sell the farm, however, when things are going along normally we may expect the man to conform to his part of the bargain and make an owner-operator out of himself which is the purpose of this amendment."

Mr. Flanagan (Virginia) moved to amend the Biermann amendment providing that the borrower cannot pay for his farm under 10 years. Mr. Jones, however, questioned whether this could be enforced. He said, "The fact is, that no law is stronger than its penalty. All the penalty that is or can be attached to this amendment is that if the covenants are violated, the Secretary may declare the payments due." The Biermann and Flanagan amendments lost.

11. Mr. Tarver, of Georgia, introduced an amendment limiting rights to alienate the farms offered as security for loans. Mr. Hope objected saying: "I do not believe it is the policy of this committee or the policy of the House to put the Government of the United States into the land business and to

give the Secretary of Agriculture the power and authority to tie up the estate of anyone who becomes a purchaser under this bill in such a way that he has no right to alienate it except under certain circumstances and after a period of years." Mr. Tarver withdrew his amendment following Mr. Hope's opposition.

Following the debate on the preceding amendments the bill was approved by the House by a roll call of 308 to 25.

Action by the Senate

The Senate debate on the Farmers Home Corporation Bill (S. 106), similar in purpose to the bill passed by the House, occurred on July 1, 1937. Since the Senate had held extensive hearings on a similar bill in 1935 it did not hold hearings on S. 106. The points discussed by the Senate are revealed by the following excerpts from the Congressional Record of that date.

Mr. McNary (Oregon). The interest rate charged the tenant is much lower than is now charged to owners of farms and much lower than has been charged them during all the years, so a tenant or cropper will actually have an advantage over a present owner or an owner in past years so far as obtaining Government funds is concerned.

Mr. Bankhead. I recognize that, Mr. President. The rate of interest is not very much lower, however, than that prescribed in the bill we passed a few days ago reducing the Federal Land Bank interest to 3½ percent.

Mr. McNary. If we are going to give a tenant a rate of 3 percent we should give the present owner of property a rate of 3 percent.

Mr. Connally (Texas). Let me ask the Senator from Alabama whether it is not true that in every country which has made a success of this kind of a plan—England, Ireland, Denmark, and other countries that they fixed a low rate of interest, absorbing part of it by the government, on the ground that it was in the interest of the nation to carry forward this sort of program. I have a statement here which gives a list of countries where the farm tenancy program has had governmental attention. The interest rate varies from 2½ to 4½ percent. The time given for amortizing the loan varies from 30 to 70 years.

Mr. Hale (Maine). I wish to ask the Senator whether it does not seem to him that the proposed legislation is going pretty far when it gives the corporation to be created the right of eminent domain.

Mr. Bankhead. It is not intended that the Government shall go out and take a man's farm, but it is intended to make it possible to clear titles.

Mr. Adams (Colorado). That raises a question as to how many tenants can be taken care of. In the western section of the country I imagine that a man who has been a tenant cannot be set up as a going landowner for less than $5,000 per farm. If that were true throughout the country the amount herein provided, $10,000,000, would take care of only 2,000 tenant farmers.

Mr. Bankhead. I will say to the Senator that in the South in the section with which I am familiar I shall be very much disappointed if it costs above $2,000 per tenant farmer. I introduced in the Senate the Subsistence Homestead Act in which I limited the cost of these little homes to $1,500. The Congress subsequently increased it to $2,000 per home.

Mr. Adams. The share of my State would not provide over 20 to 25 tenants (that is out of $10,000,000).

Mr. Bankhead. That will have to be met, of course, by subsequent Congresses.

Mr. Connally offered an amendment to increase the appropriation the first year from $10,000,000 to $50,000,000. Mr. Bankhead requested friends of the measure to vote the amendment down and this was done.

Mr. O'Mahoney (Wyoming) criticized provisions of the bill giving the tenancy corporation the authority to determine the expenditures and pay claims without approval of other departments. A corrective amendment offered by Mr. O'Mahoney was adopted. Subsequently, Mr. Pope, of Idaho, referred to numerous governmental corporations created under acts of Congress, including the Reconstruction Finance Corporation Act, Federal Home Loan Bank law, Federal Deposit Insurance Corporation law, Food Administration Grain Corporation law, and others. This he said was a device "to expedite and to audit and control these funds by the immediate department without all the red tape and all the procedures necessary to gain the approval by the Treasury Department."

The House and Senate Differences Are Reconciled

There were several important differences between the House bill (H. R. 7562) and the Senate bill (S. 106). The House bill, for example, provided for making loans to eligible applicants who would select and purchase their farms outright. The Senate bill, on the other hand, authorized the Farmers Home Corporation created by the act to purchase land and lease it to prospective purchasers for probationary periods up to 5 years. On this point the House version prevailed. The report of the conferees reconciling House and Senate differences was approved by the House on July 13, 1937, and by the Senate 2 days later.

Subsequent Amendments to the Act

It is significant indeed that 9 years passed before the Bankhead-Jones Farm Tenant Act was amended in any respect whatsoever. A restriction in the amount of individual loans was included in annual appropriation acts for six consecutive years. This will be discussed in a subsequent chapter. But approximately 250 million dollars was loaned to about 45,000 borrowers under the act as the Congress first passed it and it was found to be a remarkably workable instrument from an administrative standpoint. No serious difficulty was encountered in setting up standards consistent with the act for passing upon applications, determining the adequacy of farms, their earning capacity values, or the improvements to be made upon them.

The county-committee system proved to be exceptionally successful, and substantial progress in farm purchase financing was made under the provisions of the system of variable payments authorized. All these matters will be elaborated upon more fully in subsequent chapters. Experience suggests also that the operations on the whole have been simpler and less hazardous under a system of direct lending to borrowers who have purchased their farms from private vendors than they would have been under a system of Government purchases of land and resale to borrowers with or without probationary periods of leasing.

In view of the complexity of the problem involved, the absence of experience to serve as a guide in drafting legislation to cope with it and con-

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flicting opinions among advocates inside and outside of Congress, it is truly remarkable that so satisfactory a law should have been written.

The meritorious character of the legislation and the results secured under it are reflected in the report of the Select Committee of the House Committee on Agriculture appointed March 18, 1943, to investigate the activities of the Farm Security Administration. In its report entitled "The Activities of the Farm Security Administration," dated May 9, 1944, the committee said:

This act has proven to be one of the most far-sighted legislative steps ever taken to aid worthy small farmers of this country. The investigation dis-

FIGURE 2.—Dillard B. Lasseter, Administrator of the Farmers Home Administration, presents Mr. and Mrs. Robert A. Hale, of Americus, Ga., a deed to the first farm purchased in the United States with the proceeds of an insured-mortgage loan.

closes that the tenant purchase program as such has been operating efficiently and has resulted in many worthy citizens being placed definitely on the road to farm-home ownership. Payments have been made in excess of maturities. The purchases of farms have been financed upon a fair and reasonable basis . . . The tenant-purchase program, operating as it has through local committees of farmers, has been successful and should be continued and expanded in the interest of worthy citizens who cannot otherwise arrange to finance the purchase of family-size farm units and who without such assistance may never become home owners.

Despite the generally satisfactory character of the original act, however, experience served to bring into focus opportunities to amend it in respects

which promised to facilitate somewhat the achievement of its stated objectives. On October 23, 1945, Senator Bankhead introduced S. 1507 designed to effect these improvements. It was passed by the Senate on April 12, 1946.

Meanwhile, the House had under consideration H. R. 5991, which as finally passed became the Farmers' Home Administration Act of 1946. This bill (H. R. 5991) incorporated provisions designed to give effect to the recommendations of the Select Committee of the House Committee on Agriculture following its extended investigation of the activities of the Farm Security Administration. It also incorporated practically all of the provisions of S. 1507 as passed by the Senate.

Significant amendments as they were finally incorporated in "the Farmer's Home Administration Act of 1946" are listed and discussed below. Those discussed in paragraphs numbered 2, 4, 6, 8, and 10 originated in the Senate bill (S. 1507).

1. An amendment adding sections 11 to 15, inclusive, to title I. These new sections, printed in full in the appendix, contain the authorizations and provisions under which loans made by private or cooperative lending agencies are insured by the Government.[3] The mortgages insurable in any one year can not exceed $100,000,000, and each State's share of the total is determined by its percentage of farm population and prevalence of tenancy as in the case of direct loans.

This mortgage insurance amendment is, of course, a significant one. It is similar in general concept to the loan guarantee feature of the National Housing Act. Its primary purpose as stated by its authors is not only to increase ownership of family farms, but to accomplish this with private capital.

As far back as May 10, 1938, Senator Josh Lee, of Oklahoma, introduced in the Senate S. 4002, "A bill to promote farm ownership by amending the Bankhead-Jones Farm Tenant Act, to provide for Government-insured loans to farmers, etc." In the same session of Congress, Congressman Marvin Jones introduced an identical bill in the House as H. R. 10779. In a report to the Administrator of the Farm Security Administration covering the period from May 1 to 31, 1938, the writer made the following statement:

An attempt made to tack S. 4107 (a revised Lee bill) on to the Relief Act as an amendment was voted down in the Senate, but the opposition

[3] On June 19, 1948, the President approved an act (Public Law 720, 80th Cong.) amending these insured mortgage provisions which was generally known as the Pace amendment. It derived its name from its author, Congressman Stephen Pace, of Georgia. The interest rate on direct loans was increased from 3½ to 4 percent and the interest rate on insured loans was increased from 2½ to 3 percent. (Since the insured loan borrower pays an additional 1 percent as an administrative and insurance charge, his loan really costs him just as much as a direct loan would.) The Pace amendment also authorized the Secretary to enter into agreements with holders of mortgages to purchase outstanding mortgages not in default out of the insurance fund after a period of not less than 5 years. The half-percent increase in interest rate and shortening of the period of redemption on outstanding mortgages were designed to increase the attractiveness of insured mortgages as an investment and it appears that they have had this effect. The Pace amendment made other minor changes in the insured mortgage provisions which were unimportant from a policy standpoint, but very important from the standpoint of facilitating the administration of the act.

was against the appropriateness of tacking the bill on to the relief measure and not against the merits of the bill itself. Reference is made to this measure because of the important bearing it would have upon farm tenancy and upon the administration of the tenant purchase program in event of its passing. The Tenant Purchase Division has not completed a critical analysis of the act from an agricultural standpoint, but a casual examination indicates that the success of the program authorized by the bill will depend primarily upon whether there are sufficient guarantees that the farms on which mortgages are secured are economic units and whether adequate supervision is provided to guarantee sound farm and home management practices.

The insured-mortgage amendment as finally passed after having been before the Congress off and on in one bill or another for 8 years meets the conditions outlined in this early comment on the Lee bill. Applicants who receive insured-mortgage loans and the farms which they purchase must meet all of the requirements for applicants and for farms contained in the original Bankhead-Jones Farm Tenant Act.

Briefly stated, the difference between an insured-mortgage loan and a direct loan is the source of funds. In the case of an insured-mortgage loan the borrower will be getting his money from a private or cooperative credit source, whereas in the case of a direct loan he will be getting it from the Government. It makes no difference to the borrower whether the money comes from one source or the other except for the fact that when he receives an insured loan he must make a 10-percent down payment and must also pay in advance a 1-percent mortgage insurance charge. The interest rate which he pays for a direct Government loan will be as great as the interest rate for private loan plus the mortgage insurance charge. Hence, the only real difference to the borrower, in the last analysis, is the 10-percent down payment.

The insured-mortgage authorization should accomplish three very important results. First, it should provide for substantial expansion of the program. The Congress can still appropriate $50,000,000 for direct loans in any 1 year. This plus the $100,000,000 continuing authorization for insured-mortgage loans gives a potential total of $150,000,000 per year or three times the amount that could have been made available before the insured-mortgage amendment was enacted.

In the second place, the insured-mortgage authorization should give a degree of continuity to the program not likely to be attained under a direct lending program based upon year by year congressional appropriations.

In the third place, the insured-mortgage authorization should completely eliminate any feeling that may exist among private lending institutions that the Federal Government is competing with them.

2. An amendment to section I of title I authorizing loans to eligible persons to enable them "to repair or improve family size farms, or to refinance indebtedness against undersized or underimproved units when loans are being made or insured by the Secreary to enlarge or improve such units."

This was an amendment greatly to be desired. It removed all doubt as to authority to make a loan or insure a loan to enable a borrower to buy

additional land to round out a farm too small to support a farm family of average size. It also became possible to make a loan or insure a loan to enable a borrower to convert an inadequate family farm into an adequate one by such measures as draining wet land, clearing stump land, irrigating dry land, building or repairing a dwelling, or constructing or remodeling a barn or other utility building. Refinancing indebtedness in order to make it possible to obtain a first mortgage against a farm enlarged or developed is specifically authorized, but it is noteworthy that straight refinancing of debts on farms that are not being enlarged or developed is not authorized.

3. A second amendment to section I provides that "any veteran (defined herein as a person who served in the land or naval forces of the United States during any war between the United States and any other nation, and who shall have been discharged or released therefrom under conditions other than dishonorable) who intends to engage in farming as a principal occupation, and who meets the requirements of rules and regulations prescribed by the Secretary as to industry, experience, character, and other assurances of success as farmers, shall be eligible for the benefits of this title and their applications shall be entitled to preference over those of nonveterans." (The foregoing is subject to the special conditions and provisions of the act under which no loan can be made to any person, whether veteran or nonveteran, if he is able to get credit from any responsible source sufficient in amount to finance his actual needs and at rates prevailing in his community.)

4. A third amendment to section I provides that "loans may be made to veterans, or mortgages insured for veterans, as defined in section I (b) (2) hereof who have pensionable disabilities, to enable such veterans to acquire, enlarge, repair, or improve farm units of sufficient size to meet the farming capabilities of such veterans and afford them income which, together with their pensions, will enable them to meet living and operating expenses and the amounts due on their loans." Until this amendment was passed, notwithstanding the great desire to do so, it was impossible to lend a disabled veteran money to purchase anything other than a full-sized family farm regardless of the fact that his disabilities might make it impossible for him to operate such a farm and the further fact that his pension would make it unnecessary for him to do so.

5. Section 2 of the act was amended by the inclusion of a provision that "the farm shall be appraised by competent employees of the Secretary thoroughly trained in appraisal techniques and the appraisal shall be made available to the county committee and the Secretary for their guidance in determining the value of the farm as specified above." This amendment merely gave legal sanction to a policy that had been adhered to consistently since the inception of the program. This section was further amended by including the word "industry" along with the words "character, ability and experience" as factors to be taken into consideration in determining the eligibility of applicants.

6. Section 3 was amended by the addition of a sentence reading "Loans may not be made for the acquisition or enlargement of farms which have a value as acquired, enlarged, or improved in excess of the average value of

efficient family type farm-management units as determined by the Secretary in the county, parish, or locality where the farm is located." This amendment represents the outcome of the issue which grew up around the limitation on individual loans included in annual appropriation acts from 1941 through 1946. Since farms of greater value than the average and farms of lesser value than the average are included in the average, it follows that the effect of this amendment is to keep farm-ownership farms in the lower area of the total range of family farms. This appears to be consistent with the ideas of sponsors of the original Bankhead-Jones Farm Tenant Act, namely, spreading its benefits to maximum numbers rather than assisting a select few to become established on a large scale and very profitable basis.

7. Section 3 of the act was further amended by changing the interest rate from 3 to 3½ percent. Many, including the author, regret this increase in interest rate. It is related to the insured-mortgage amendment previously discussed. It is, of course, essential that the cost to the borrower obtaining an insured loan and a borrower obtaining a direct loan be identical, otherwise there would be competition for the lower-cost loan and dissatisfaction if it were not available. At the 3½-percent rate the net return to a private lender, after subtracting 1 percent as a mortgage-insurance charge, is only 2½ percent. The increase to 3½ percent, therefore, appeared unavoidable.[4]

8. Section 4 was amended by adding a provision that "there may be disbursed in any fiscal year to each State or Territory such amounts as are necessary to insure mortgages or finance loans pursuant to all bona fide applications from veterans qualified under section I hereof." This amendment necessitates withholding or withdrawing loan funds or loan-guarantee authorizations which would ordinarily go to States on the basis of farm population and prevalence of tenancy, if and when this becomes necessary in order to take care of bona fide applications from qualified veterans in other States.

9. Section 4 was further amended by a proviso that "there may be disbursed in any fiscal year to each State or Territory such amount not in excess of $100,000 as is determined by the Secretary to be necessary to finance loans in such State or Territory under this title." Under the provisions of the original act whereby the funds available for loans during any fiscal year are distributed equitably among the several States and Territories on the basis of farm population and prevalence of tenancy, some States received less than $100,000 per year particularly when the annual appropriation for loans fell below $50,000,000. The amendment just quoted, therefore, benefits States with small farm population and low percentages of tenancy without materially reducing apportionments to other States.

10. Section 48 of the act authorizing variable payments was amended by adding a provision that "any advance payments to the Secretary shall not affect the obligation to pay the required annual installment during periods of normal or above normal income." Under the variable-payment system

[4] As indicated in the footnote amplifying the insured-mortgage amendment, the Pace amendment increased the net interest on insured loans to 3 percent and on direct loans to 4 percent.

worked out in conformance with the provisions of the original act the borrower was permitted to pay less than the amount required to amortize his loan in 40 years when his payments are well ahead of schedule. It was not necessary for him to build up a prepaid reserve before being permitted to pay less than schedule. The sentence quoted above and other changes in the language of section 48 now permit a borrower to pay less than the amount required to amortize his loan in 40 years only when his income is below normal and then only if he has a prepaid reserve built up. This amendment will be more fully discussed in the chapter devoted to variable payments.

11. Amendments were made to section 41 (g) of title IV of the act which liberalized the compromise provision. This not only permits fair treatment of borrowers of good faith, but it also greatly simplifies and facilitates the transfer of a farm from one borrower to another. As a matter of fact, the act as originally drawn did not permit releasing the borrower from liability when his farm was transferred to a new borrower even though at the time no loss was sustained by the Government as a result of such transfer. It was determined to be bad policy and unfair to hold the original borrower legally liable for the payment of a debt assumed by a transferee when he had cooperated in good faith and met his obligations. Therefore, the only recourse prior to the adoption of this amendment was for the Government to repossess the farm and then resell it. This was a more cumbersome and time-consuming process than direct transfer.

12. Section 14 of the act was amended by addition of a provision requiring borrowers to refinance their loans upon the request of the Secretary. The Farm Security Administration did not favor this amendment. Its position with respect to it was set forth in a memorandum from Dillard B. Lasseter, Administrator, to W. A. Jump, Director of Finance, Office of Budget and Finance, under the date of January 11, 1946. The following is quoted from it:

(*a*) It (the refinancing amendment) would introduce indefiniteness and uncertainty into the contractual relation between the borrower and the creditor. The Bankhead-Jones Farm Tenant Act would no longer be an act under which farm tenants, farm laborers, and share croppers could complete the process of becoming debt-free farm owners.

(*b*) One of the long-standing and prevalent evils of farm financing which the Bankhead-Jones Farm Tenant Act seeks to correct is the cost of repeated financing of shorter term loans. The proposed provision would be reversionary with respect to this evil.

(*c*) Refinancing would involve additional costs in the form of appraisal fees, title examinations, etc. Usually it would involve changing to a higher interest rate and often to a shorter term. On the basis of services now rendered by cooperative lending agencies and private lending institutions, it would involve discontinuance of supervision, practical guidance, and variable repayment privileges. In short, the borrower would be disadvantaged in several respects vital to his success.

(*d*) Under the variable payment provisions of the Bankhead-Jones Farm Tenant Act borrowers are encouraged to build up, and do build up, substantial margins of safety in the form of advance payments of principal and interest. In the process of refinancing, these margins of safety would

be wiped out. This would often occur when equities to be protected had reached a maximum in the life of a given loan up to that date. To avoid this contingency and to delay the date of refinancing under which disadvantages would be sustained a borrower would certainly be less inclined to get ahead of schedule. Thus, a practice which should be encouraged both legislatively and administratively would be discouraged. The borrower barely meeting the requirements of his Bankhead-Jones obligation would continue to receive favorable terms longer than the enterprising and industrious borrower making substantial advance payments.

(*e*) Constantly skimming the cream off the borrower group by the refinancing process would result in a substantial increase in average servicing and supervisory costs for those remaining. This would give rise to a very practical administrative problem and might even jeopardize the continuation of such a service.

(*f*) Compulsory refinancing of tenant purchase loans before the process of converting farm tenants, farm laborers, and share croppers into owners has been fully consummated will prevent an accurate appraisal of the need and value of the type of program authorized by title I of the Bankhead-Jones Farm Tenant Act. Much of the value of this program as a demonstration of desirable credit policies and practices will be lost because final objectives will not be attained under the program.

While pointing out the above objections to the refinancing amendment, the Farm Security Administration also recognized the logic of some of the arguments in its favor. When borrowers have progressed to the point that they are able to obtain credit from private and cooperative credit sources they should no doubt be encouraged to do so provided their circumstances are such that they are likely to be able to carry on successfully without the benefit of supervisory aid or the variable payment provision. Refinancing loans can sometimes be obtained before these conditions are met.

The first objection raised against the amendment, namely, that "it would introduce indefiniteness and uncertainty into the contractual relation" has now been largely remedied by a provision in FHA instructions under which action on the matter of refinancing is deferred until a borrower has paid 35 percent or more of his loan.[5]

13. Section 42 of title IV was amended by making it possible, but not necessary, for one of the three members of a county committee to be other than a farmer. The rate of pay of county committeemen was changed from $3 to $5 per day. The original act limited the number of days for which compensation could be paid to a committeeman to five. The act as amended provided "the number of days per month that each member may be paid shall be determined and approved by the Secretary." The amendment requires the term of service of committeemen to be staggered so that one will retire each year. An alternate may be appointed. The pay raise to committeemen was consistent with general price and wage trends. The greater flexibility allowed as to compensatable days of service per month conformed with needs as reflected by operating experience. The staggering of terms of appointment of committees members was already practiced as a matter of administrative policy.

[5] FHA Instruction 465.1, III, (July 8, 1948).

Chapter II

THE FIRST YEAR

The Job To Be Done

A good way to gain an understanding of the farm ownership program as it developed during the early years is to go back to the beginning, take an inventory of the job to be done, the resources available for doing it, and then consider one by one the major administrative problems as they arose and the action taken with respect to each.

When the writer reported for duty as director of the new Tenant Purchase Division, September 7, 1937, the task that lay immediately ahead was to lend $10,000,000 to qualified farm tenants, farm laborers, and share croppers before June 30, 1938, and to do it in a manner consistent with the letter and spirit of the law.

But the division was without a staff. One must be recruited immediately and its activities coordinated with those of the existing personnel of the Farm Security Administration. Funds were not sufficient to make loans in all counties. In what manner were we to determine where to make loans and where not to make them? No loan could be made without approval of a county committee. The Secretary was to appoint the committees, but how could nominations be obtained for his consideration? Even with the highest degree of decentralization in carrying out the program, basic policy guides would be needed by all field workers. Forms on which applications could be filed, forms for use in appraising farms and other legal documents such as mortgages, notes, and so forth, would be required before actual lending operations could be started.

The debate in Congress when the act was up for consideration revealed that the need for tenant purchase loans was great. Failure to use the funds provided would have cast doubt upon the workability of the law or upon the competence of its administrators. Doubtless such failure would have had a harmful effect upon the whole future of the program. The first year was, therefore, especially important. Three weeks of it had passed before the President signed the act. Two months had gone by before the Secretary of Agriculture assigned the functions vested in him by the act to the Administrator of the Farm Security Administration. There was much to be done and a limited time in which to do it. Pressed by the urgency of the situation, we started action immediately.

The Farmers Home Corporation Board held its first meeting September 18, 1937. By October 5 an Administration Order outlining the plan of organization and the basic policies to be followed in administering the act had been drawn and approved by the Administrator of the Farm Security

Administration and the Secretary of Agriculture. By that date most of the staff of the new Tenant Purchase Division had been selected and assigned to duty. The new division held its first staff meeting on October 6, 1937. The appointment of State advisory committees, designating counties in which tenant purchase loans were to be made the first year, appointing county committees to serve in those counties, holding schools to train county committeemen and county supervisors all followed in quick succession.

The first loan was made on February 12, 1938, to Wiley J. Langley, of Jasper County, Ala. By the end of the fiscal year June 30, 1938, 1,879 loans had been made and $9,146,632 out of the $10,000,000 appropriated had been obligated.

The actions taken during the first year were significant. They set basic policies, standards of eligibility for borrowers, patterns for family farms, loan limits, appraisal methods and other practices which have been adhered to in substantial measure ever since. In brief, the first year charted a course which in the main has been followed ever since.

The Resources at Hand

The foregoing résumé suggests a tempo of action somewhat incompatible with laying a solid and enduring foundation upon which to build a sturdy superstructure. Save for one thing this would have been true. That one thing was experience previously gained by the Resettlement Administration and the Federal Emergency Relief Administration in making and supervising rehabilitation loans and in developing rural resettlement projects. Part of this experience was negative in character suggesting what should not be done. On the other hand much of it was positive and out of this positive experience—particularly, that related to farm and home management planning, budgeting the family income and outgo, and farm and home record-keeping—came the basic ideas that were incorporated in the new program.

At least three valuable lessons were learned from the rural resettlement projects. First, it had become apparent as early as 1937 that it is a much more difficult and hazardous undertaking to guide the group relations of people than it is to help individual families with their problems of farm and home financing and management. Those planning the tenant purchase program deliberately avoided the group approach. The law did not contemplate such an approach. Troubles were mounting in the administration of the resettlement projects already in existence and public sentiment was rapidly crystallizing against that type of undertaking. It was thought by many inside and outside of Congress to be inconsistent with the American tradition.

Another lesson learned from resettlement project experience was the unhappy result of establishing borrowers on farms so small that it was impossible for their occupants to make a living and retire their debts. It became necessary to correct the mistakes of the initial planners of many of the resettlement projects by enlarging inadequate farms and reorganizing the projects in general. The point is illustrated by the following examples selected from different geographical areas.

The Plum Bayou project in Jefferson County, Ark., was completed in 1938 with 200 farms comprising 9,854 acres. Farms averaged 49 acres in size. It soon became apparent that these farms were too small. Steps were, therefore, taken to reorganize them by combining undersized units and thus creating adequate units. Land which could not be so combined was converted into small tracts suitable for homes for part-time farmers or farm laborers. It was understood that families could not make a living on these small tracts. In this manner the original 200 inadequate farms were consolidated into 144 adequate farms. The average size increased from 49 to 67 acres.[1]

The Roanoke and Tillery projects in Halifax County, N. C., were also completed in 1938. There were 311 farms comprising 18,031 acres and averaging 58 acres per farm. These farms also were too small and had to be reorganized. After reorganization there were only 150 full-time farms, averaging 79.4 acres per farm.[2] This is slightly less than half the number of farms originally developed.

The farms on the Ropesville Farms project in Hockley County, Tex., were originally planned as 60-acre units, but fortunately it was decided, as a precautionary measure, to erect buildings only on every second 60-acre unit. It soon became apparent that at least 120 acres would be required to make an adequate farm under the soil and climatic conditions prevailing in Hockley County. Steps were taken later to bring the acreage from 120 up to 160. The latest liquidation report issued by the Farmers Home Administration (December 31, 1947) indicates that the 77 full-time farm units in the Ropesville project now comprise 16,177 acres, or an average of 210 acres per unit. This is more than 3½ times the acreage per farm originally planned.

The Beltrami Island Farms project in Minnesota was completed in 1937 with 214 farm units comprising 25,010 acres. By December 31, 1947, 2,162 additional acres had been acquired, but the number of full-time farm units had shrunk to 134. The average acreage for full-time farm units increased from 116 to 148. About 7,200 acres were disposed of as subsistence units, nonfarm units or as surplus Government property.

In the Pacific Northwest, Yamhill Farms in Yamhill and Polk Counties, Oreg., started with 104 farms comprising 6,404 acres. As of December 31, 1947, there were 85 full-time farms comprising 6,167 acres and 15 subsistence units comprising 350 acres. The average acreage per full-time farm increased from 61 to 72. But acreage does not tell the whole story in this case. Supplemental irrigation was installed on some of the farms, at least doubling the capacity of the acres involved and substantially increasing the investment per farm.

It was the determined purpose of those in charge of the tenant purchase program to avoid this mistake of establishing borrowers on inadequate farms so persistently made by the planners of projects. It was resolved to make loans only for the purchase of farms large enough to enable operators of

[1] Special FSA Report on 193 Projects—state of project development, based on obligations to June 30, 1943.

[2] From data submitted at congressional budget hearings, 1948.

ordinary ability to farm them successfully. County committees were advised on this policy and their good judgment contributed much toward carrying it out. But in spite of the emphasis placed on this point, as later discussions will reveal, the record of the Tenant Purchase Division, particularly in subdividing plantations in Southern States, was not above criticism in this respect. Some of the farms purchased with early loans were definitely too small.

A great deal of useful experience had been accumulated on resettlement projects with respect to rural housing. Plans and specifications had been prepared for a number of different styles and patterns of low-cost dwellings, barns, chicken houses, and other farm buildings. A staff of architects and construction engineers had been employed and much experience had been gained in actual construction by the contract method and by force account. All of this experience and talent was available to those who directed the farm ownership program. With the assignment to Farmers Home Administration of the farm housing title of the Housing Act of 1949, further benefits to the agency have resulted and will continue to result from the pioneering activities in the rural housing field carried on in the late thirties.

The program most similar in character to that authorized by the Bankhead-Jones Farm Tenant Act was a special program called the farm-tenant security project. The farms developed under this program were often referred to as "scattered farms." The report of the Resettlement Administration for the year 1936 makes the following statement with reference to this program:

A special farm-tenant section was set up in the Rural Resettlement Division in the latter part of December for the purpose of assisting 1,000 selected farm tenant families in 10 Southern States toward home ownership.

With the aid of the State extension services, counties were selected for the project area within each State. These counties were selected on the basis of their being highly developed and containing the best farming lands and having a large percentage of tenancy. An allocation of 4 million dollars was approved by the Administration, based on an average estimated cost per unit of $4,000.

With the aid of the county agent, the rural rehabilitation supervisor and the county rural rehabilitation committee, farm tenants of good reputation for integrity and farming ability are nominated, and good, economical, family-size farms selected. White and colored farm tenants are selected on the basis of the local proportion of these two classes. Wherever the farm which a selected client is now occupying is up to the Resettlement standards, an effort is made to purchase that farm for sale to the tenant. A farm-management plan is worked out for the farm and the client, taking into consideration crop rotation and soil conservation. Farms are being selected which show that the average normal rental customarily paid by the tenant to the landowner will pay for the farm over a period of 40 years or less, together with an interest charge of 3 percent. The plan is to lease the farm to the client with the privilege of entering into a purchase contract when the client is in a position to make a cash payment of 15 percent toward the purchase of the farm. Every farm unit is carefuly considered, and plans are made for adding such improvements as may be needed to meet the standard set for other Rural Resettlement farms.

Notwithstanding the similarity of the two programs in general pattern, as a matter of fact, the policies and procedures followed in the farm-tenant security program had essentially nothing to do with shaping the policies or procedures of the farm ownership program. This was in part due to the fact that the scattered farms of the farm-tenant security program were under project managers of the Resettlement Division and not under county rehabilitation supervisors. The Tenant Purchase staff was integrated with the Rehabilitation staff, not with the Resettlement Project staff. The Tenant Purchase Division utilized and worked through the county rehabilitation supervisors.

Since it was the practice in the farm tenant security program to buy farms, lease them to prospective purchasers for probationary periods and then sell them to renters who made good, it is unfortunate that the records do not reveal how this feature worked out. This is particularly true since the Senate version of the Bankhead-Jones Farm Tenant Act contemplated that general method of operation. The scattered farms of the farm tenant security project which proved to be economic units were finally assigned to the farm ownership division for servicing, but the records do not reveal how many of the original renters ultimately became successful owners.

The rural rehabilitation program had been in operation 3 years when the farm ownership program was started. County supervisors were employed in practically every agricultural county in the United States. They were experienced in helping low-income farm families work out successful systems and methods of operation. They knew how to estimate farm income and family living and farm operating expenses. They had helped many of their borrowers plan and budget their operations and keep simple farm records. This ability on the part of supervisors to judge the income-producing capacities of farms and to help farm families get established on sound operating and financial bases was the greatest single asset to which those who were to guide the destinies of the farm ownership program fell heir.[1]

These farm and home management techniques and practices became essentially the "tools of the trade" for those who participated in administering the Bankhead-Jones Farm Tenant Act. Few, if any, of the early supervisors were master craftsmen in the use of these tools of the trade. In fact, some of the leading farm-management authorities in land-grant colleges expressed doubt as to whether competent persons were available for the job at salaries that could be paid. There was certainly some basis for their skepticism. After more than 10 years of experience it can still be stated that recruiting and training a competent field staff has been a major administrative problem. But administrators are obliged to deal with relatives rather than absolutes and with progress rather than perfection. Viewed in this light, the staff of supervisors, so distributed that all agricultural counties in the United States were served, made it possible to inaugurate the tenant purchase program quickly and to complete the first year of operation with a creditable measure of success.

[1] The author, who became the first director of the farm ownership program, had previously served as director of the rural rehabilitation program. In that capacity he had initiated farm and home management planning, record keeping and the basic ideas of supervised credit which were incorporated in farm ownership policies and procedures under his direction.

The working relationship that had been established between county rehabilitation supervisors and rehabilitation borrowers before the farm-ownership program was started was another inherited asset. The worthiness and moral responsibility of thousands of rehabilitation borrowers had been subjected to a practical test. Their capacities for making progress when adequately financed and accorded the benefit of practical guidance had been demonstrated. Members of the field staff which was to operate the new program were already working with many farm families who were eager and ready to advance from the ranks of farm tenants and share croppers into the ranks of owner-operators of family type farms.

Recruiting a Staff and Coordinating Its Functions

Proceeding upon the assumption that the rehabilitation staff of the Farm Security Administration was to be utilized to the maximum extent possible in administering the Bankhead-Jones Farm Tenant Act, the question was one of determining the extent to which it would be necessary to supplement this staff in developing an efficient working organization. The manner in which this was done is clearly revealed in Administration Order 230, approved October 5, 1937, by the administrator of the Farm Security Administration and the Secretary of Agriculture. Eliminating the sections dealing with State and county committees, which will be quoted in chapter IV, that order reads as follows:

A. *At the National Level*

To execute the provisions of title I and related provisions of title IV of the Bankhead-Jones Farm Tenant Act, subject to approved policies and procedures, there is hereby created a major division of the Farm Security Administration to be designated as the Tenant Purchase Division.

The Washington staff of the Tenant Purchase Division of the Farm Security Administration will be limited at the outset to a Director, an Assistant Director, one Executive Assistant, one Administrative Assistant, one Chief Economist, one Loan Adviser, and the necessary secretarial and clerical help.

In lieu of a staff of specialists in the Tenant Purchase Division, it is understood that the Director of that Division and the Director of the Rural Rehabilitation Division will cooperate closely and the services of the present technical staff of the Rural Rehabilitation Division will be available to assist both divisions as required.

The Division of Farm Management of the Bureau of Agricultural Economics will designate a specialist in farm management to serve as an adviser to the Director of the Tenant Purchase Division with respect to farm management problems.

B. *At the Regional Level*

The regional director for the Farm Security Administration shall be the chief executive officer in each region for the administration of title I of the Bankhead-Jones Farm Tenant Act.

Under the regional director, the regional office set-up for carrying out the tenant purchase program shall consist of one specialist in tenant purchase loans, one assistant, and necessary clerical help. In lieu of a special staff, the specialist in tenant purchase loans shall share with the other divi-

sions in the services of the regional farm management specialist and home management specialist, Loan and Collections section, Finance and Control Division, Business Management Division, and so forth. In other words, except for the specialist on tenant loans, his assistant, and their clerical staff, there will be no special personnel in the regional office.

C. *At the State Level*

Subject to the administrative authority of the regional director, or his designated assistant, the State director of the Farm Security Administration shall be responsible for supervising the execution of the tenant purchase program in the respective States. The State director shall also serve, without extra compensation, as executive secretary of the State farm security advisory committee, issuing such notices of meetings, preparing such minutes, and maintaining such files and records as may be required. With the possible exception of an additional stenographer, no additions to the present staff of State directors will be required.

D. *At the County Level*

Responsibility for carrying out the provisions of title I of the Bankhead-Jones Farm Tenant Act in the counties, except that imposed by the act or by the Administrator upon county committees, shall be vested in the rural rehabilitation supervisors and applications for tenant purchase loans shall be filed with such county supervisors. Without additional compensation, the rural rehabilitation supervisors shall serve as executive secretaries of county committees and shall conduct such correspondence and maintain such files and records in behalf of such committees as may be required.

The land-grant colleges and the agricultural experiment stations shall be recognized as authorities within each State with respect to technical agricultural practices in that State and the advice of qualified representatives of these institutions shall be sought with respect to the farm and home management plans developed by the county farm and home supervisor in cooperation with borrowers as a basis for farm purchase loans. Such advice should be given in the county in which the plans are developed. The county agricultural agents of the respective counties will be requested to serve as advisers to county committees with respect to qualifications of applicants for tenant purchase loans, and local agricultural practices.

The New Organization Begins to Function

At the very outset the Tenant Purchase Division adopted, and continued until July 1941, the practice of submitting monthly or periodic reports of progress to the Administrator of the Farm Security Administration. The first of the reports submitted under the date of October 20, 1938 included this introductory statement.

. . . this Division will follow the practice of making a brief résumé of activities by months immediately following the close of each month. We will record in these reports many dates and facts that may prove valuable for future reference. The reports will also have a value in keeping everyone currently informed of progress.

The first report, typical of those which followed it, made reference to (*a*) the issuance of the Secretary's Memorandum No. 738; (*b*) Administration Order 230; (*c*) instructions to regional directors on methods of submitting nominations for State advisory committees; (*d*) Administration

Order 231 allocating funds to States; (*e*) estimates of loan funds required by months; (*f*) instructions to regional directors on the selection of personnel for regional and State offices; (*g*) a calendar of future activities of the Division.

Actions Taken on Special Problem

Inaugurating the farm-ownership program in the Territory of Hawaii and the insular possession of Puerto Rico presented a special problem for the reason that the Farm Security Administration had no organization in either of these places comparable to the regional, State, and county offices of the continental United States. It was decided to attempt to work out a cooperative agreement with the Agricultural Extension Services of the University of Hawaii and the University of Puerto Rico. Both institutions responded favorably. Dr. A. Rodriguez Geigel, Director of Extension in Puerto Rico, assumed the general administrative responsibilities in Puerto Rico and H. H. Warner, Director of Extension at the University of Hawaii, assumed administrative responsibilities for the Territory of Hawaii. On January 26, 1938, Kenneth Smith, Administrative Assistant in the Tenant Purchase Division, proceeded to Puerto Rico to assist Director Rodriguez with organizing a staff and getting the program under way. On February 28, 1938, E. R. Henson, Assistant Director of the Tenant Purchase Division, left for Hawaii to assist Director Warner in setting up the program there.

Need for subdividing plantations into family farms foreseen.—The report of the Tenant Purchase Division for May, 1938 contains the following statement on the subject of subdividing plantations:

Most of the tenant operated land in the southern States is operated on the plantation basis. If we are to change the ownership pattern we must look toward transferring some of this plantation operated land to owners of family size farms. This undertaking will present special difficulties because it is impossible under the Act to purchase large tracts, subdivide and resell them.

Determining date first payment due.—Processing of loan dockets on or after the mid-year gave rise to the question, "When will borrowers who derive less than the full year's income from farms be expected to make the first installment payment on principal and interest?" On May 11, 1938 regional directors were instructed on this point by telegram as follows:

. . . In all cases where a tenant purchase borrower secures a farm during the growing season and all interest in crops is retained by present owner the borrower will not be billed for first payment during remainder of year but will make his first payment from proceeds of crops produced during his first year as operator of the farm.

Need for architectural and engineering services discovered.—From field observation and the examination of loan dockets arriving in regional offices, it became apparent that in some instances items included for repairs, alterations and improvements of buildings on farms to be purchased were inadequate. The Administrator called a conference of members of his engineering staff and the Tenant Purchase Division and it was determined that plans and estimates on repairs and construction would be made prior to

certification of loans by county committees and that the field staff of the Engineering Division would render the services necessary to implement this policy.

Determinations made with respect to types of estates.—Among the early legal questions arising was that having to do with types of estates. On the basis of information supplied by the Office of the Solicitor the following policies were adopted:

1. Loans shall not be made to enable persons to secure estates in common.
2. When the regional attorney, with the consent of the solicitor, certifies that an estate by the entirety is possible, loans to purchase such an estate will be permitted.
3. When the regional attorney, with the consent of the solicitor, certifies that a joint estate is possible and that the right of survivorship can be attached as an incident to that estate, loans to enable a husband and wife to acquire such an estate will be permitted. In no event should a loan to enable two persons, who are not husband and wife, to secure an estate be permitted.
4. Where loans are permitted for the purpose of securing a joint estate or an estate by the entirety, the decision should be left primarily to the borrower. The borrower should not be compelled to give his wife an immediate interest in the property unless he is willing.

Statistical Record of First Year's Activities

Number of counties designated, 331.
Number of loans made, 1,879.
Total amount loaned, $9,146,632.
Amount invested by borrowers, $74,896.
Purchase price of farms, $7,618,605.
Amount loaned for the construction of new dwellings, $507,449.
Amount loaned for repairing dwellings, $361,148.
Amount loaned for repairing other buildings, $453,166.
Amount loaned for land improvements, $188,519.
Average loan per borrower, $4,847.
Number of borrowers making down payments, 478.
Average amount of down payment by borrowers making such payments, $156.
Number of new farm dwellings constructed with proceeds of loans, 440.
Average cost of new farm dwellings, $1,153.
Number of farm dwellings repaired, 1,245.
Average amount loaned for dwelling repairs, $290.
Number receiving loans for repair or improvement of other buildings, 1,593.
Average amount loaned for improvement of other buildings, $284.
Number receiving loans for land improvement, 1,223.
Average amount loaned for land improvement, $154.

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Chapter III

THE FARMERS HOME CORPORATION BOARD

Developments with respect to the Farmers Home Corporation Board authorized in the original Bankhead-Jones Farm Tenant Act are somewhat shrouded in mystery. The impression usually gained by reading the act is that a corporation was to be created and that the provisions of the act were to be administered by the Corporation's board of three directors. This never happened, and the question has often been raised as to why it did not. In its report to the Congress the Select Committee of the House Committee on Agriculture to investigate the activities of the Farm Security Administration said, "The corporation which Congress sought by said act to create and clothe with authority was neither used nor permitted to function."

Not only has there been much curiosity as to why the full potential powers and authorities of the corporation were not utilized, but there has also been a general lack of familiarity with the manner in which the Corporation Board did function and the services which it did render. The facts, to the extent that they are known and recorded, are presented herewith.

Broad Potential Powers Conferred Upon Board by Law

The Secretary of Agriculture was authorized to delegate to the Farmers Home Corporation all of the powers which the act conferred upon him. The management of the Corporation was vested in a board of three directors designated by the Secretary. It was required that they be employees of the Department of Agriculture. They were to receive no extra compensation for services rendered as board members. The Board, subject to the approval of the Secretary, was authorized to employ an administrator to serve as executive officer of the Corporation. The principal office of the Corporation was to be located in the District of Columbia. Branch offices were authorized "elsewhere in the United States." Nominal capital stock was authorized "in an amount determined and subscribed for by the Secretary." The Secretary and the Board were authorized to "appoint and fix the compensation of such officers and employees as may be necessary" and perform a number of other essential administrative acts.

Functions of Board Limited by Action of Secretary

On the basis of the authorities outlined above, the Secretary of Agriculture appointed Harry L. Brown, Assistant Secretary of Agriculture; A. G. Black, Chief of the Bureau of Agricultural Economics; and Will W. Alexander, Administrator of the Farm Security Administration, as the Board of Directors of the Farmers Home Corporation.

In so doing he specified that the Board "shall act as general adviser to the Secretary and to the Administrator of the Farm Security Administration on general policies relating to titles I and II of said act, and shall further advise the Secretary with respect to the coordination of the program authorized by said titles I and II with the general work of the Department." [1] The Secretary's memorandum announcing the above appointments also provided that title I and related provisions of title IV of the Bankhead-Jones Farm Tenant Act should be administered by the Administrator of the Farm Security Administration. Why, and upon what legal grounds did the Secretary take this action?

Congressman Marvin Jones gave the answer when he presented the report of the conference committee reconciling the differences between the House and Senate versions of the bill. He said "The Senate bill provided for administration by a corporation instead of by the Secretary of Agriculture. In the conference report we authorized the Secretary to use a corporation if he finds it advisable to do so. In other words, it is in his discretion."

The wording of the act and its interpretation by one of its authors appear to remove any doubt as to the legality of the action taken by the Secretary. It is reasonable to assume that he was fully advised on this point by the Solicitor of the Department of Agriculture.

There is nothing in the record other than the memorandum itself which throws any light upon the reasons back of the Secretary's action. However, these circumstances may well have been taken into account. The Farm Security Administration was a going concern, organized and functioning in a manner similar to other bureaus of the Department of Agriculture. A Board of Directors made up, as the act provided, of employees of the Department of Agriculture would not itself have been expected to discharge routine administrative functions. Each member of the Board would have had his own assignment of administrative duties in addition to his Board duties. Logically, the Board would have exercised the authority conferred upon it to select "subject to the approval of the secretary, an administrator who shall be the executive officer of the corporation."

Such an administrator would have been responsible to the three directors of the corporation, whereas the Administrator of the Farm Security Administration was and would continue to be responsible directly to the Secretary. It can readily be surmised that the Secretary preferred to continue the prevailing pattern of administrative organization in the Department of Agriculture under which various bureaus were directed by chiefs responsible to him rather than to set up a corporation whose governing board would stand between him and the Administrator of the act.

The record of the Corporation Board, in performing the advisory and coordinating functions delegated to it by Memorandum No. 738, appears to conform in general to the proposition that bodies of that character tend to lapse into inactivity after the formative stages are past and administrative functions become more or less routine. Such routine functions are best performed by an administrative head who is constantly on the job. Clearance through a three-man advisory board is time consuming. It

[1] U. S. D. A. Memorandum No. 738, September 30, 1937.

tends to slow down operations and create bottlenecks. Administration of the Bankhead-Jones Farm Tenant Act was no exception to this general rule. The Board performed important services at the start as the following record will indicate, but its usefulness diminished as time passed. After the 2 years the Board became wholly inoperative.

Between September 18, 1937, and November 1, 1939, the Board held 16 meetings and in addition devoted 2 days to inspecting Farm Ownership farms and interviewing Farm Ownership borrowers and State and county committee members in Alabama and Arkansas. The first three sessions of the Board were devoted to general discussions of organization and procedure. No records of actions for those three meetings were kept. There is a record of the agenda of the next two meetings. For the remaining meetings there is a full record of the policy questions submitted for consideration and of all Board actions taken. Not only did the Board approve all important policy statements and releases issued at the outset, but the chairman of the Board cleared all nominations for State advisory committee members before appointment by the Secretary of Agriculture. The Board members received copies of the monthly reports and special reports issued by the Tenant Purchase Division. The following is a schedule of board meetings:

1937	*1938*	*1939*
September 18.	March 23.	May 2.
September 23.	April 2.	September 25.
October 5.	April 6.	November 1.
October 20.	April 16.	
November 10.	June 13.	
	July 30.	
	August 6.	
	October 26.	
	December 10–12, field trip.	

Changes in Personnel of Board

On December 18, 1939, the Secretary of Agriculture announced the resignation of Board members Harry L. Brown and A. G. Black and their replacement by R. M. Evans, AAA Administrator, and Milo Perkins, President of the Federal Surplus Commodities Corporation. On the same date Will W. Alexander, Administrator of the Farm Security Administration, was advanced to the chairmanship of the Board. On February 8, 1941, C. B. Baldwin was appointed to succeed Dr. Alexander.

None of the Board members appointed to succeed the original appointees ever attended a Board meeting. The last meeting of the Board was held on November 1, 1939. C. B. Baldwin attended meetings occasionally for Dr. Will Alexander but he never attended a meeting after he became a Board member.

It will be noted that after the trip to the field, December 10 and 12, 1938, meetings were held with much less frequency than formerly. This was due to the fact that broad questions of organization and policy had been determined by that time and operations consistent with those policies had been routinized to a substantial degree.

The Farmers Home Corporation Board rendered decisions on a number of important questions of policy during the period of its greatest activity.

The minutes of Board meetings throw a revealing light upon the manner in which policy questions arose and policy determinations were made. The Director of the Tenant Purchase Division acted as secretary of the Board and in that capacity submitted information on pending problems involving policy decisions usually accompanied by a recommended course of action.

Board Establishes $12,000 Loan Limit

The occasion for considering the matter of a limit on individual loans is presented in a letter dated April 2, 1938, from the Director of the Tenant Purchase Division to the Administrator of the Farm Security Administration:

An application for a loan in the amount of $22,250 and another in the amount of $19,500 have been received in region III, and the regional director has requested a statement of policy with respect to the approval of loans in these amounts.

Both applications originated in McLean County, Ill., in which 60.9 percent of the farmers are tenants. The 1935 census gives the average value of all farms in McLean County as $18,560. The average value of 1,108 owner-operated farms is $13,027 and of 2,566 tenant farms is $19,587. We are, therefore, asked to approve two loans in one of the richest agricultural counties of the country in amounts in excess of the average value of all farms in that county and considerably in excess of the average value of owner-operated farms.

We have sought the advice of State committees in the various States on the amount of loan necessary to purchase and improve family-size farms on which industrious families operating under sound plans can meet expenses and maintain standards of living consistent with local conditions.

Both the Illinois State Farm Security advisory committee and McLean county committee favor these loans.

The Administration faces the alternative of deferring to the judgment of the State and county committees and authorizing the loans, or, disapproving the loans on the ground that they are excessive and inconsistent with our conception of a family-size farm.

It is my recommendation that we advise the regional director that the Administration does not look with favor upon loans in areas of high land value in excess of the average value of owner-operated farms in the county.

This is a matter of such importance that I feel it should be brought to the attention of the Farmers' Home Corporation Board for consideration.

The action taken on the question raised in the above letter is revealed in the minutes of Board meetings held April 2 and April 6 which are quoted in full below:

Minutes of Board meeting of April 2, 1938: [2] The Board considered the question raised in the attached memorandum from Mr. Maris to Dr. Alexander, dated April 2, entitled "Policy with Respect to Making Loans under Title I of the Bankhead-Jones Farm Tenant Act for Amounts as Great as $22,250 and $19,500." A letter from Regional Director R. C. Smith to Dr. Alexander, dated March 31, was read.

Dr. Black objected to basing the loan limits on the "average value of owner operated farms" in the county for the reason that such averages include small suburban tracts as well as very large farms and do not therefore

[2] Meeting attended by Harry L. Brown, Chairman, Albert G. Black, C. B. Baldwin (representing W. W. Alexander) and Paul V. Maris.

have any particular relation to the necessary investment required for the purchase of a farm of the desirable size for carrying on the kind of farming prevailing in the area.

Mr. Baldwin expressed the opinion that from the standpoint of public relations it is not desirable to make loans in such large amounts. Inasmuch as loans in southern States are ranging between $3,500 and $4,000 loans for as much as $19,500 or $22,500 would appear discriminatory.

Mr. Maris called attention to the fact that an application for a $7,000 loan has been received from McLean County and that an option has been taken on a farm for $10,000, thus indicating that farms which appear to be satisfactory from a farm management standpoint can be bought in McLean County at considerably less than the amounts under consideration. He stated that his attention had been directed to an application for $3,500 loan in an Ohio county and for a $13,000 loan in the same county, and stated that the wide range in the amounts applied for within given counties and within given States emphasized the desirability of careful consideration of the entire question of size of loans that can be made under title I of the Bankhead-Jones Farm Tenant Act. He expressed the opinion that in Southern areas where standards of living and farm values are low our objective should be to raise standards, whereas in the high price farming areas the objective should be to establish families on farms costing less than the general run of farms.

Chairman Brown stated that the question raised is one of such importance that it should receive further consideration before final action is taken. He stated that if he were forced to make a decision immediately it would be against the loans in the amounts stated. He indicated his desire to discuss the matter with "Spike" (R. M.) Evans and perhaps others, and proposed that the whole question be held over for further consideration early next week. The Board agreed to this action.

Minutes of Board meeting of April 6 1938.[3]—The Board resumed consideration of the McLean County, Ill., applications for $22,250 and $19,500 loans.

Chairman Brown reported that he had proceeded in accordance with a suggestion made by Dr. Black at the previous meeting and had conferred with "Spike" Evans and later with Secretary Wallace. He indicated that both the Secretary and Mr. Evans were unfavorable to the large loans. As an indication of the thinking of the Secretary on the subject Mr. Brown reported that the Secretary expressed the opinion that loans in the better farming areas of the Mid-West might in round numbers be three times as great as those in the low price farming areas in southern States.

The Board considered the two tentative drafts of telegrams attached herewith. Dr. Black questioned whether the Act justifies the conclusion that tenants and sharecroppers in the poor farming areas should be favored as against the more prosperous tenants operating on a larger scale in better farming areas. He did not object to the $12,000 limit, in fact favored that limit this year, but preferred the reasons set forth in the shorter telegram.[4]

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[3] Attended by Harry L. Brown, Albert G. Black, and Paul V. Maris.

[4] The $12,000 administrative limit on Farm Ownership loans, which has never been abolished, but to which administrative exceptions are now made when properly justified, had its origin in this Board meeting of April 6, 1938. It was recommended by the director of the Tenant Purchase Division. In approving his telegram to R. C. Smith, the Board approved the $12,000 limit and all States were thereafter required to observe that limit.

Mr. Maris explained that Mr. Baldwin felt that we might be premature in stating principles at this time. He explained that his reason for setting forth these principles in the longer telegram was that there appears to be necessity for establishing a policy with respect to loans to tenants of the needier class as against those of the better-to-do large borrowers.

Mr. Brown expressed the opinion that we had perhaps not acquired enough experience as yet under the act to formulate principles of such basic character with safety. The Board decided, therefore, in favor of the shorter telegram.

The two telegrams referred to in the preceding minutes are quoted below. The short telegram was approved as expressing Board policy. The longer telegram expressed principles with respect to which the Board desired to gain additional experience before stating its position.

April 5, 1938.

Mr. R. C. Smith,
Regional Director,
Farm Security Administration, Indianapolis, Ind.

In view of limited amount of funds available for lending this year under Title one Bankhead-Jones Farm Tenant Act and the desirability of aiding largest possible number of qualified applicants to become owners it has been decided by Farmers' Home Corporation Board that loans in the higher priced farming areas should not be approved this year for amounts greater than $12,000. Hilton and Deatrick applications should therefore be disapproved. (Approved by Board.)

Paul V. Maris, *Director,*
Tenant Purchase Division.

April 5, 1938.

Mr. R. C. Smith,
Regional Director,
Farm Security Administration, Indianapolis, Ind.

In considering Hilton and Deatrick applications for loans in amounts of $22,250 and $19,500 respectively Farmers Home Corporation Board recognized following principles: first, obvious intent of Title I of Bankhead-Jones Farm Tenant Act is to aid class of tenants whose present economic and social status is unsatisfactory; second, tenants operating large highly capitalized units in prosperous agricultural areas are generally less in need of aid than tenants and sharecroppers in poorer agricultural areas; third, funds should be so administered as to improve the conditions of maximum number of needier class of tenants and sharecroppers in respective States qualified under terms of act from standpoint of character, ability and experience. Granting Hilton and Deatrick loans would be inconsistent with these principles and with conception of family size farm set forth in Administration Instruction 137. Applications should therefore be disapproved and loans in areas devoted generally to large farming units representing large capital outlay should be confined to applicants able to locate satisfactory farms at prices not in excess of $12,000. If economic units cannot be obtained within this price limit in certain areas program should be shifted to areas in which economic units can be obtained within this price limit. (Approval of Board Withheld.)

Paul V. Maris, *Director,*
Tenant Purchase Division.

Other Significant Board Actions

Chattels excluded from the purchase price of farms.—The following action is reported in the minutes of the meeting of the Board held on April 16, 1938:

Attention was directed to an option submitted in region III which included in the purchase price of the farm a certain quantity of hay and farm implements. Mr. Maris stated that until the question was raised in this instance it had been the policy to interpret the word "farm" as limited to real estate and improvements thereon. He pointed out that including certain sup-

plies, equipment and livestock with the farm would raise questions of appraisal and complicate the problem of determining values. The Board agreed that it is desirable to proceed upon the basis that "farm" means the real estate and improvements, exclusive of chattels.

Debt adjustment, compensating State committeemen, and rotation in office.—The minutes of the Board meeting for July 30 contained the following entries:

1. Approved new statement of policy with respect to replacement of State debt adjustment committees by Farm Security advisory committees.
2. Chairman Brown and Dr. Black expressed themselves as being in favor of paying State committeemen $10 per day, but not to exceed 6 days per year if it were found possible to do so from a budgetary standpoint.

The Board approved the principle of rotation in office of State committee members, but requested that the policy be so stated that it will be possible to reappoint members at the expiration of their term of service. (This policy was later revised so that the ex-officio members, State directors of extension and State vocational teachers of agriculture were exempted from the rotation system which applied to all other State committee members.)

Charting the course for the second year.—At a meeting held on June 13, 1938, the Board approved a letter from the Administrator to all regional directors and finance managers authorizing the expansion of the tenant purchase (farm ownership) program into 367 additional counties during the 1939 fiscal year, establishing the criteria to be followed by State committees in designating those additional counties, outlining the method to be followed in nominating and appointing county committees and the method to be followed in receiving and passing upon applications for loans.

Variable payment plan considered.—At meetings held on July 30 and August 6, 1938, the Board gave thorough consideration to a system of variable payments developed and presented by the Director of the Tenant Purchase Division. It was based upon borrower's net income arrived at by deducting family living expenses and farm operating expenses from gross income. Because of its importance this subject and the Board's position with respect to it will be discussed in a separate chapter devoted to "the variable payment plan."

Board rejected county committee's request that share croppers be allowed on tobacco farms.—On October 26, 1938, the Administrator submitted a communication to the Board containing the following:

The county committee of Mecklenburg County, Va., has requested modification of our "family-size farm policy" as it applies to tobacco farms. The committee feels that we should make loans for the purchase of farms on which there will be at least one sharecropper family. Correspondence pertaining to the case is attached. Mr. Maris has informed the committee as to the policy as it now stands and indicated that they will be advised further in case there is change. It is the recommendation of the Tenant Purchase Division, with which I concur, that the present policy be continued.

The letter received from the Mecklenburg County committee referred to in the preceding memorandum from Dr. Alexander and the writer's tentative reply to it are quoted below:

We, the undersigned members of the tenant purchase committee for Mecklenburg County, Va., which to express our views on the question of these tenant purchase borrowers having farm labor. We feel that it is imperative in the tobacco section at least that they have some constant and dependable source of labor.

In the tobacco area this can best be accomplished by using share croppers. They can be share croppers or hired help, paid a part of the crop as wages.

To say that the tenant purchase borrowers cannot have this help in our opinion means that the best type of applicants will be cut out of the program, for they realize that when they have to do all the work the load will be too heavy. Even if they have children from 12 to 16 years of age they will be in school for 9 months of the year and of comparatively little value to the farm. One man on a farm is terribly handicapped as there is always more than he can do. In the spring there is gardening, etc., and the plowing must go on. If the gardening is done plowing must wait and a few days delay in setting out tobacco plants may be very costly. When the double plowing is done most of the cultivation is done with single plows and cultivators and two men are needed all the time.

Our position is that letting these borrowers have a share cropper is not setting up a two-family unit but helping the purchaser to pay for his farm and at the same time giving the share cropper employment.

If the tobacco farmer does not have help on the farm it is almost impossible for him to get it at planting and harvesting time as the labor in this section must give preference to the man on whose land he lives. Tobacco is not a crop that will wait; when it is ready it must be harvested.

We ask most earnestly that the policy of the Farm Security Administration as it applies to share croppers on tobacco farms be changed, so that these farmers will not be handicapped and discouraged by a lack of labor. When the committee meets we would be glad to appear before them and to go further into this question as we consider it a vital point in this farm tenant purchase program.

(Signed) A. P. Johnson, *Chairman.*
(Signed) Marcellus C. Green.
(Signed) M. L. Gillespie.

A reply to the above letter was prepared as follows for the Board's consideration:

Gentlemen: This will acknowledge your letter of October 1, in which you request that the policy of the Farm Security Administration, as it applies to tobacco farms, be changed so that borrowers may hire labor regularly or have a share cropper who will furnish labor in addition to that of the borrower and his family.

You have presented a very convincing statement in support of your contention that extra help is needed on the tobacco farms of your region. However, your suggestion strikes at a very fundamental principle of the Bankhead-Jones Farm Tenant Act. We, of course, must be guided by the spirit and letter of that legislation. It appears to be clear that the family-size farm upon which a diligent farm family can carry on successful farming operations is what is contemplated, not a farm on which extra outside labor will be regularly required.

As you are well aware, there are very important agricultural sections in our country where the plantation type of farming prevails, and where a

relatively small number of farms are operated by individual owners. Consistent with the objectives of the Bankhead-Jones Farm Tenant Act, we have deemed it necessary to make loans for the purchase of family-size farms even where the share-cropper system is the prevailing system.

This same reasoning would hold true in the tobacco region in which you are located. It appears that it is our obligation to buy farms on which a system of farming can be worked out that will lend itself to family operation, without regularly employed outside labor and without share croppers. Of course, if we loan money for the purchase of farms on which there would be one share-cropping family we would find it difficult to draw the line, and we certainly would have demands for loans to purchase farms on which there would be several share-cropping families. Thus, by degrees, we would find ourselves administering an act designed to create ownership in a manner that would in reality perpetuate farm tenantry and the share-cropping system.

I have sought to present the reasons back of the policy which we are following. However, since you have raised an important question, I believe it should be brought to the attention of the Administrator of the Farm Security Administration, and to the Farmers Home Corporation Board, which advises our administration on matters of fundamental policy. Should it be agreed that there should be some modifications of our policy as it now stands, I will communicate with you further. If there should be no change in policy, you will understand the reason for the regulations as they exist.

As members of the Mecklenburg County committee I know that we can count upon you to carry out the policies of the Farm Security Administration, notwithstanding the very practical difficulty which you have so clearly presented.

(Signed) Paul V. Maris

At its meeting on October 26, 1938, the Board took action on several matters which is recorded in the minutes as follows:

Share croppers on tobacco farms.—After considering the statement submitted by the county committee of Mecklenburg County, Va., all members of the Board were agreed that there should be no modification of the present policy of loaning funds only for the purchase of family-size farms. The policy as it stands is sufficiently elastic to allow the employment of outside labor to meet seasonal demands. Chairman Brown pointed out that if we finance a landlord system of farming in the tobacco area there will be demand for it in other areas and we will find ourselves perpetuating a system we are seeking to correct.

Twelve-thousand-dollar limit reaffirmed.—In view of the fact that there has been general acceptance of the $12,000 loan limit in the higher priced farming areas, the Board was indisposed to make an exception in the case of Martin County, Minn. The Board, however, indicated its desire to make a trip to the field, as suggested by the Administrator, for the purpose of looking over farms in high-priced farming areas, as well as low-priced areas, and for the purpose of observing the effect of other policies in the field. Mr. Maris was asked to work out a tentative itinerary for a trip during the week beginning November 27.

The White-Negro loan ratio.—In a memorandum submitted to the Board by the Director of the Tenant Purchase Division under the date of May 2, 1939, the following statement was made with reference to "the White-Negro loan ratio":

Last year we made 265 Negro loans out of 1,433 all told in the Southern States. This is 19 percent in an area in which 35 percent of the tenants are Negroes.

This year 158 of the 1,215 loans have been to Negroes, which is 13 percent, or a drop of 6 percent as compared with last year. This slump has occurred notwithstanding a firm determination to bring Negro loans more closely in line to percentage of Negro tenants. There appeared to be no lack of interest or determination to increase Negro loans on the part of our regional personnel or our State advisory committees. As the year has progressed a close check has been maintained on the trend of Negro loans. On February 2, the Tenant Purchase Division sent the following telegram to the regions concerned:

In spite of larger number of Negro applications your region, ratio of Negro loans to white loans is falling behind last year's except in (State). What steps are you taking to correct this situation? Will proper number of Negro loans be completed by end of year?

This was followed up yesterday by a very strong telegram from the Administrator to the regional directors concerned.

It is in the counties that our efforts seem to break down. The remedy appears to be the allocation by the Washington office of specific funds for Negro loans and specific funds for white loans, with the provisions that the Negro funds cannot be converted into white loans.

The minutes of the Board meeting held on May 2, 1938, state its position on this matter as follows:

The fact that the percentage of Negro loans is falling behind the unsatisfactory record of last year was discussed at length. It was agreed that the goals for Negro loans set by the respective State committees have in general been satisfactory, and that regional directors have endeavored to carry out the Negro-white ratio as recommended by State committees. It was agreed that the breakdown occurs in the counties and that the solution may lie in a definite allocation of funds for Negro loans and a definite allocation of funds for white loans, with the understanding that the funds allotted for Negro loans cannot be used for white loans.

Issue over building standards.—A memorandum to the Board dated May 2 contained the following reference to "building standards":

The severest and most damaging criticism being directed against the TP program has to do with building standards. To a considerable extent the criticism grows out of misunderstanding the policy. In part, it grows out of disapproval of the policy. There is no quarrel with the minimum standards set forth in Instruction 621.1. Rather the issue is on what we do with respect to repairing old buildings and what our standards are with respect to new structures. We have had our State committees inspect our repair and construction jobs. Almost without exception they are in agreement with what we are doing. Our county committees, however, are not yet in unanimous agreement with our building standards policy. It appears that farmers themselves have a building inferiority complex. They are not disposed to fight for respectable building standards in rural areas. We are confronted with the fact that if we relax all standards we will be setting an ownership pattern that is little, if any, better than tenantry.

The minutes of the Board meeting of May 2 contain this reference to "building standards."

Dr. Alexander expressed doubt as to whether the criticism of building standards could be accurately described as "severe" or "damaging." He indicated that he had received letters from State committee members who had made personal investigations of the improvements on tenant purchase farms and that these letters expressed approval of our building standards.

Chairman Brown expressed approval of working closely with State committees in this matter. There was agreement that there is need for an aroused interest in standards of housing in rural areas and for much educational work along this line.

Labor policy.—Labor policy was also discussed in the May 2 memorandum as follows:

Our policy encourages doing major repairs and new construction jobs under contract, and requires contractors to pay prevailing wages as determined by regional directors. Borrowers who are deemed by the engineering representative and the regional director to be qualified to do their own construction work are authorized to do it. There is a strong undercurrent of opposition to paying the prevailing wage rate which, around metropolitan areas particularly, is clear out of line with what the farmer earns and with wages ordinarily paid in farming areas. There is no open outbreak on this point. In general the policy is being worked out with wisdom and discretion. The sharpest criticism and most adverse sentiment results from alleged denying the borrower the privilege of doing his own repair and construction work. As a matter of fact, when there is evidence that he is qualified, the borrower is encouraged to do his own work and thus hold down his loan. Some borrowers want to undertake repair and construction jobs, however, which they have little or no qualifications for doing, so this becomes one of the delicate points of administration.

With reference to the above matter the Board minutes contain this statement:

Chairman Brown raised the question as to whether or not any serious difficulties had arisen in carrying out the labor policies. He stated that no complaints had come to his attention. Dr. Alexander reported that the matter was being well-handled, in general, and that no serious problems had arisen.

Confining loans to best soil types not viewed with favor.—At its May 2 meeting the Board expressed approval of the following statement prepared by the Director of the tenant purchase division:

There appears to be a tendency in some States to confine lending activities to the better soil types in the better areas of the States. Instruction 621.1 sets forth the criteria for the selection of farms. It indicates that we are seeking good farms in good communities. The policy as stated, however, does not preclude getting into the mountain area of Kentucky, for example, and it does not preclude buying farms in other than the highest class farming areas in the various States. It is my assumption, which I submit for Board consideration, that we cannot pursue too restrictive a policy with respect to farming areas. As the program expands we should not hesitate to loan funds for the purchase of farms where land use studies and local planning agencies indicate that farming is to be continued. Our object should be to buy units on which borrowers can succeed and to pay prices consistent with earning capacity. The observance of these conditions may keep us from operating in some areas, but we should not pursue a policy that keeps us in general out of other than the best farming areas.

Board agreed that county committees should keep minutes of formal actions.—On October 27, 1939, the Director of the Tenant Purchase Division addressed a memorandum to the Administrator raising the question as

to whether or not county committees should be required to keep minutes of formal actions. It reads as follows:

Up to the present time county committees have proceeded to transact their business in a very informal manner. The one and only formality universally observed is that of executing the certificates in behalf of approved applicants and the farms which they are to buy. This is in conformance with the legal requirement. The committee proceeds informally to analyze the applications received, reduce them to a small number and finally select those best qualified. In a like manner the committee proceeds informally with the approval and disapproval of farms.

It is assumed that the activities of committees should continue to be carried on largely on this informal basis. The one question is, Should there be certain formal sessions during which motions are presented and acted upon with respect to applicants and with respect to farms? Thus the minutes might indicate that the county committee met on a designated date and on the basis of information accumulated selected for further investigation the following 25 applicants out of a list of 230. A later set of minutes might record the subsequent actions of the committee in which certain of the applicants were authorized to select farms. In a similar way record would be made of farms considered and farms approved.

The argument in favor of such formal procedure is that we are frequently questioned by individuals with respect to action taken by county committees on their applications, or by other individuals with respect to action taken by county committees with respect to the purchase of their farms. As it is now we are unable to cite any formal action by committees. There is nothing in the written record. If it were decided to proceed more formally and keep a record of actions, it would devolve upon the county RR supervisor, serving in his capacity as secretary to the county committee, to keep an official minute book.

We do not want to take this step unless it appears to be fully justified. Formal procedure will impose some restraint upon committeemen. It will also consume some time on the part of the supervisor and his secretary. The question, however, has arisen in the field. There is some sentiment to the effect that we should adopt the practice of having committees go into formal session to take action on matters that they have carried through preliminary phases on an informal basis. A discussion of the pros and cons of this matter with the Board would aid us in reaching a sound conclusion.

At its meeting on November 1, 1939, the Board recorded its judgment that committees should keep minutes of formal actions and the policy has been in effect since that date.

Chapter IV

STATE AND COUNTY COMMITTEES

Farmer committees and farmer directors of cooperative associations and improvement associations have in recent years come to assume an important role in the administration of federally financed and directed programs. This has been particularly true of so-called action programs administered by the United States Department of Agriculture.

The Production and Marketing Administration has PMA State committees and farmer-elected PMA county committees and PMA community committees. The Soil Conservation Service and its field employees work with farmer organized and managed soil-conservation districts; the Rural Electrification Administration extends loans to farmer-organized cooperative associations with farmer boards and farmer officers. The Farmers Home Administration carries out its lending program with the advice and help of State and county committees. The Extension Service, an educational rather than action agency, has throughout its history made extensive use of community, county, and State committees of men and women in formulating programs and planning activities.

Various ideas have been advanced on the manner in which farmer committees should be created, their compensation, their powers and functions and the relationships between the farmer committees and publicly employed persons. Directors of farmer cooperatives and of legally constituted farmer organizations such as soil-conservation districts are, of course, elected by their members. However, in many situations in which committee services are called for there is no organized group to do the electing or appointing of committees, nor is the public interest great enough or well enough defined to make public elections practical.

Interest in such questions as those mentioned above is not likely to diminish, especially if the Federal Government is called upon to assume additional functions as the Nation grows and new problems arise which lie in the realm of Federal responsibility. Accordingly, the experience of each Federal agency which has developed and operated a system of farmer committees is a matter of public interest. In solving the problem of balance of power between local and central units of government, it appears that properly constituted local committees can make an important contribution. To do so they must, of course, be more than rubber stamps. They must have recognized status and prerogatives. They must be well qualified to represent their constituencies. They must be free to exercise independent judgment within the sphere of their assigned authorities.

It is the experience of the Farmers Home Administration that the creation and recognition of committees, with the prerogatives and authorities sug-

gested above, opens the way for a satisfactory and effective working relationship between administrative officers, field personnel, and the people themselves. By virtue of the contribution made by committees, administration ceases to be a matter of "remote control," insensitive to local needs and reactions. It becomes a matter of "joint or blended control," sensitive alike to broad program objectives, legal requirements, budgetary limitations and local needs, reactions, and traditions.

There has been some concern lest farmer committees identified with federally directed programs become too numerous. One suggested remedy is to have fewer committees, with each performing multiple functions. There is a principle involved in this connection, however, which should not be overlooked, namely, that committee functions are performed best by persons most concerned with and best informed about the problem involved.

Thus, a committee of dairymen is likely to render the most acceptable service in setting up and guiding the destinies of a dairy herd improvement association. A committee of stockmen chosen from among those who use the public domain for grazing purposes is likely to represent the views of stockmen most acceptably in negotiations with public officials who administer the public domain. Parents who have children in 4–H Club work are likely to be the best adult advisers to county 4–H Club leaders. A committee which is responsible for administering acreage allotments and marketing quotas for the Production and Marketing Administration may be too much preoccupied with that task to be able to certify intelligently the earning capacity value of a dozen or more prospective Farm Ownership loan farms.

One caution should be observed in the concentration of numerous functions in a single committee—the committee service should not become professionalized. It is not desirable to have all committee work done by a few persons whose interests as committeemen ultimately tend to transcend their interests as farmers.

Experience with many types of farmer committees extending over many years suggests that observance of certain simple, but basic principles will prevent an excess number of farmer committees and avoid overlapping or duplication of committee functions. One principle is that a committee should never be appointed unless there is a definite, important, and clearly defined job for it to do. When a job to be done requires committee action, a qualified committee should be set up to do the job. A second principle is that committee members should be selected on the basis of the qualifications for a particular job. A third principle is that a committee should have authority commensurate with its responsibilities and be free, within established laws and policies, to exercise that authority without coercion or domination.

Conceivably, a committee might be created for the specific purpose of coordinating the activities of numerous committees working in connection with federally directed programs in a given county. It would be illogical, however, for such a committee to assume the functions of numerous properly constituted committees in the county just as it would be illogical for a single committee of the United States Congress to assume the functions of

all congressional committees or for a single committee of a city council to assume the functions of all other committees. The "Jack of all trades," for sufficient reasons, has quite completely disappeared from the scene of successful individual endeavor.

The specific duties of State and county FHA committees are set forth in official FHA instructions, but their total influence upon the Farm Ownership program in the United States is, and has been from the beginning, much greater than the sum of the several specific tasks assigned to them. They assure essential and continuous local participation in policy making and program direction. They reflect public sentiment. They inspire public confidence. They act as a safeguard against the potential dangers of over-centralized administrative control. They know local needs and conditions and help adapt available services to those needs and conditions.

The foregoing generalizations apply in a broad way to FHA's entire system of State and county committees. State committees are strictly advisory. There is no legal basis for their existence. They were created by administrative action. County committees, on the other hand, perform important legal functions. No loan of any kind can be made without their approval. In this respect, they exercise a vital control over program operations from which there can be no appeal.

Background and Origin of State FHA Committees

Two problems mentioned in chapter II provided compelling reasons for the creation of State advisory committees in the respective States immediately after the passage of the Bankhead-Jones Farm Tenant Act. The first was a need for a responsible body with State jurisdiction to exercise judgment and share responsibility in the matter of designating counties in each State in which Farm Ownership loans were to be made. This was a more delicate matter than might at first appear. Congressmen were eager to have counties in their respective districts designated, but it was obvious at the start that it would be folly to appoint and train county committees and receive and pass upon large numbers of applications for loans if only a single loan or even no loan at all was to be made.

Another matter with respect to which the assistance of State advisory committees was needed immediately was endorsement by responsible State bodies of nominees for positions on county advisory committees.

Looking beyond problems of the moment, it appeared that the State advisory committee might perform a function of still greater importance than the two urgent "chores" just mentioned. They might serve by advising the Administrator concerning broad national policies and the adapting of such policies to local conditions.

One thing that caused hesitation in the decision to appoint State advisory committees was the fate of the State advisory committees created by the Federal Emergency Relief Administration when the rural rehabilitation program was inaugurated in 1934. Only a little more than 3 years had elapsed since the collapse of this earlier, ill-fated venture. The Director of the Farm Ownership Division had been identified with it and did not care to repeat the experience.

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These State advisory committees of FERA days were not themselves at fault. They performed services of great importance, although that fact is not generally known. In those days large sums of money were being allocated to States in the form of grants-in-aid. States were required to submit written rural rehabilitation plans justifying the grants-in-aid applied for, and it was necessary for State advisory committees to approve rehabilitation plans before they were submitted to Washington. State committees also performed important coordinating functions in the early days. State directors of Extension were ex-officio members of the FERA State advisory committees. State and Federal rehabilitation staffs, particularly members of such staffs occupying positions of leadership, were drawn largely from the ranks of the State agricultural extension services. Extension service methods and techniques were relied upon primarily in rehabilitating needy borrowers. It was highly desirable to proceed in a manner that would convince leaders in the Extension Service that there was no disposition to create a rival or competitive organization. Fortunately this was accomplished, and much credit properly belongs to members of the State advisory committees organized by the Federal Emergency Relief Administration in 1934 who helped to thrash out problems of relationship.

Hardly had FERA's State advisory committees become well established, however, before State rehabilitation corporations were created as agencies for receiving and administering Federal grants-in-aid. The boards of directors of these State rehabilitation corporations were so constituted that control over them was centered almost completely in the Federal FERA Administrator. A majority of the directors of the respective State rehabilitation corporations, as first constituted, were employees of the Federal Emergency Relief Administration and were on its pay roll.

Very soon then the Federal Emergency Relief Administration found itself with two State bodies to deal with—the State advisory committees and the directors of State rehabilitation corporations. Largely because of the legal and financial nature of the problems handled by State corporation directors, negotiations with them and recognition accorded to them increased steadily and the recognition accorded to State advisory committees decreased correspondingly. This proceeded in time to the point of embarrassment to the influential citizens who had accepted membership on State advisory committees as well as to the administrative heads of the rehabilitation program in Washington and it was finally decided to discontinue State advisory committees, notwithstanding the fact that they represented the public more completely than corporation boards made up in part of Federal and State employees.

The next development of significance in this general area of State committee relations occurred when State rehabilitation corporations turned their assets over to the Resettlement Administration to be administered as trust funds. Since the boards of directors of State corporations had taken over the functions of State advisory committees and since these boards of directors became inactive when the management of corporation assets was assigned to the Farm Security Administration, the Farm Security Administration found itself with no representative State body with which to con-

sult. As previously stated, there were some misgivings as to the wisdom of making a fresh start.

In an agreement with the Extension Service signed June 7, 1935, the Resettlement Administration committed itself to he proposition that "The rehabilitation corporations now chartered in the various States and territories, or such other boards or committees as may be established, shall be the agencies through which the Resettlement Administration will function in the respective States or Territories . . ."

This policy was confirmed in an administration letter issued by the Resettlement Administration under date of August 14, 1935. It provided specifically that "A State advisory committee on rural rehabilitation shall be organized in each State. This advisory committee shall give advice and counsel on the program of Rural Rehabilitation . . ." Neither the order nor the commitment with respect to committees in the agreement with the Extension Service were carried out, however, largely because of the general condition of confusion created by the demise of the FERA State committees and the complicated situation surrounding the negotiations with State Rehabilitation corporations.

The question of appointing new State committees in the respective States was further complicated by the existence at that time in a number of States of State farm debt adjustment committees. These committees were appointed by State Governors before the administration of debt adjustment was assigned to the Farm Security Administration. After the debt adjustment activity had been transferred to the Farm Security Administration, it appeared that if State advisory committees were to be set up, it would be both logical and consistent with efficiency for them to assume the debt-adjustment functions. However, it was not thought desirable to propose the liquidation of committees appointed by State Governors.

The manner in which the question of appointing State advisory committees was finally resolved is indicated by the following quotations from Administration Order 230 signed by the Administrator of the Farm Security Administration and the Secretary of Agriculture on August 5, 1937:

In each State there should be a State Farm Security Advisory Committee which shall serve in an advisory capacity with respect to all phases of the Farm Security Administration program except that such committees are not intended to replace existing State Farm Debt Adjustment Committees.

On July 30, 1938, the Farmers Home Corporation Board amended the above reference to State farm debt adjustment committees so that it read: "except that such committees shall replace a State Farm Debt Adjustment Committee only when agreeable to the authorities responsible for its creation within the given State." The minutes of the Board explained that this action was taken for the reason "that there are certain States in which it appears desirable, and State authorities are favorable, to having the State Farm Security Committee supersede the State Farm Debt Adjustment Committee."

The expression "which shall serve in an advisory capacity with respect to all phases of the Farm Security Administration program" deserves special comment in the light of subsequent developments. When this action was

taken the Rural Rehabilitation program was the largest phase of the Farm Security program. Resettlement projects were the second largest phase measured in terms of funds involved, personnel engaged, and number of families receiving loans. Despite these facts, State committees did not, in fact, function in an advisory capacity with respect to rehabilitation policies and activities or resettlement project policies and activities. It was many years before they really began to function in an advisory capacity "with respect to all phases" of the Farm Security program.

The reason State advisory committees concerned themselves with farm ownership loan matters and not with rural rehabilitation and resettlement project matters is quite simple. They were given specific tasks to perform in connection with the farm ownership program and they were consulted with respect to the formation of basic farm ownership loan policies. At that time, this was not true in the case of the other phases of the FSA program. State committees, therefore, very logically came to consider themselves to be State tenant purchase (farm ownership) advisory committees. Many persons in administrative positions in the Farm Security Administration likewise so regarded them. A moral may be drawn from this fact, namely, that committees are likely to be conscious of only those responsibilities that they are called upon to assume. In more recent years, the original concepts of State advisory committees has been realized. They have familiarized themselves with and advised with respect to the production and subsistence loan program and the water facilities program as well as the farm ownership program.

Functions and Activities of State Committee

Functions of State FHA advisory committees are defined in current FHA instructions as follows:[1]

> 1. To advise the State director with respect to adapting broad national Farmers Home Administration policies to local conditions in the respective States, and to submit recommendations that may be helpful in shaping the future program of the Farmers Home Administration.
> 2. To consider the problems and advise the State director concerning agricultural, health, credit, and other needs of low-income farm families in the State and to suggest ways for the Farmers Home Administration to meet these needs more effectively.
> 3. To inform the State director and the administrator of the committeemen's reactions, and of the reactions of the public in general, to the Farmers Home Administration program.
> 4. To assist in coordinating the Farmers Home Administration program with the activities and programs of other agencies operating in the field of agriculture in the State.
> 5. To advise the State director concerning farm debt adjustment activities.

Approving county committee nominees for appointment by the Secretary of Agriculture and designating counties in which loans were to be made consumed much of the time and attention of State committees for a period

[1] FHA Instruction 236.2 (January 12, 1948).

of 3 or 4 years. On July 1, 1941, the method of appointing county committees was somewhat simplified and approval by State committees was no longer required.[2] On September 15, 1942, the practice of designating counties was abandoned and authority was issued for making loans in all counties.

Relieved of these specific tasks, State committees began to exercise more fully the more important function of advising with respect to broad national policies and adapting national policies to local situations. As indicated in the chapter on variable payments, they rendered services of immeasurable value in developing that system. Their advice was of great importance in developing the agreement between the Farmers Home Administration and farm ownership borrowers designed to curb some of the unfavorable developments that had manifested themselves.

State committees have rendered a service of great value in connection with establishing loan limits and determining the average value of efficient family-type farms in the respective counties of the different States. As indicated in the chapter on upper and lower limits on farm ownership loans, it is the responsibility of State advisory committees to review the findings of county committees "and make such adjustment in county committee estimates as may be necessary to correct inconsistencies and bring the averages of the various counties of the State into proper relationship."

Another important committee service has been that of participating in tours for the purpose of inspecting farm ownership loan farms. In the course of these tours observations are made as to the size of farms, methods of farming, nature of improvements, effectiveness of supervision, attitudes of borrowers, and other matters of public interest and concern. After visiting a number of farms, it is customary for committee members and FHA officials to discuss what they have seen and the changes in policies or emphasis which appear to be advantageous in connection with the farm ownership loan program.

On June 1, 1949, six of the nine members of the Alabama State Advisory Committee participated in a tour in Geneva County during which both farm ownership loan farms and production loan farms were observed. On June 2 a follow-up meeting was held. The State director of extension, who is a member of the Alabama committee, went on the tour. Others accompanying the State committee included two members of the Geneva County FHA committee, the county supervisor, the assistant county supervisor, the county agricultural agent, the Soil Conservation Service technician, the State FHA director, the State FO chief, the State FHA field representative and a representative of the Veterans' Administration engaged in training veterans. Except with respect to method of transportation, the Geneva County tour and the meeting following it were typical of such events. Because they illustrate so well the manner in which State committees operate, the minutes of the tour and meeting are quoted below with minor deletions:

After County Supervisor Crowell had shown the location of borrowers in the county, and had explained the areas to be visited, all members of the

[2] See letter from FSA Administrator to State Advisory Committee members dated May 14, 1941; reproduced on pp. 54–55.

State committee and others present left by bus at 9:15 a. m., and devoted the remainder of the day to visiting production loan and farm ownership borrowers and observing the various types of agricultural programs being carried out in Geneva County. Geneva County was selected as typical of approximately nine counties in the southeastern part of the State. Detailed discussions were held on the farms of 2 PL (production loan) borrowers and 4 FO (farm ownership) borrowers. Folders were distributed giving information relative to each of these borrowers.

Approximately 25 other borrower farms were called to the attention of the committee while passing through the county but stops were restricted primarily to the six indicated above. A loud speaker was installed in the bus and was used by the county supervisor in discussing practices being carried out on borrower farms which were seen or visited. The county agent used this means to advise the committee of the agricultural program in Geneva County. The representatives of the Soil Conservation Service and Vocational Agriculture likewise explained their programs and in each of the discussions the relationship, one to the other, was clearly evidenced.

The tour was completed at approximately 5 p. m., and all participants agreed that the mode of transportation and other plans carried out made this a most satisfactory tour. In traveling by bus the committee was kept advised at all times by the county supervisor, and others, of what was being seen, of the problems in the different sections of the county and was able to remain together comfortably and participate freely in discussions even though in travel status. The committee adjourned upon return to Geneva and reconvened in the community center on June 2, at 8:30 a. m.

Mr. J. H. Wood, national field representative, and Mr. C. H. Bedingfield, State farm management specialist, joined the group for discussion the second day. The county supervisor gave the committee a full report on all phases of the program in the county and the committee expressed endorsement of the records and of the progress being made by the borrowers. The committee asked a number of searching questions about the agricultural practices which are being planned and carried out by borrowers. It expressed the general view that provisions should be made for more livestock in this section of the State. The records presented by the supervisor reflected an average gross cash income among FO borrowers in 1948 of approximately $3,200, only $490 of which came from hogs. Some members of the committee expressed the view that the hog income in this section should amount to approximately one-third of the total cash farm income. There was considerable discussion on this point but the committee felt there should be further study and did not attempt to reach a final decision.

The committee engaged in considerable discussion as to the place of mechanized farming in this section of the State. The supervisor advised that a number of tractor owners in the county were thinking seriously of selling their tractors and returning to mule farming. The committee viewed with considerable concern this report and pointed out that better farming practices, including the production of more soil-building crops, could and would be carried out by the tractor operator and was further of the opinion that small tractors could be used advantageously by family type operators in that section of the State.

During the tour the preceding day, the committee recognized the splendid cooperative relationship among the several agencies in the county and during the meeting on June 2 requested by unanimous resolution that the secretary advise each agency representative in the county who participated

in the tour of its appreciation for the splendid cooperation and of its recognition that such cooperation accounted in a large measure for the splendid program being carried out in the county.

On June 13, 1949, the Ohio State FHA Advisory Committee visited farm ownership and production loan farms in Licking, Muskingum, and Guernsey Counties. They were accompanied by the State FHA director, the director of the Town and Country Department of the Ohio Council of Churches, and a representative of radio station WRFD. The minutes covering the meeting and tour contained the following items:

The discussion gradually centered around the advisability of applicants purchasing farms at this time and it was generally agreed that there were numerous families now in position to assume ownership who should proceed cautiously in that direction. In this connection, the matter of county ceiling prices was brought into the discussion. After every county committeeman present had expressed his sentiments, it was generally agreed that they were in favor of reviewing the ceiling prices in their respective counties with the thought of recommending an adjustment in case their findings justified such action . . .

In discussing some of the observations made by the committee during the day's tour, in relation to the progress the families were making, and the improved practices that have been adopted, it was brought out quite emphatically by county committeemen present that the accomplishment by families generally was not what could be expected if adequate supervision could be extended. In fact, it was the general opinion that the FHA program was being jeopardized in many areas because of inadequate supervisory personnel. . . .

The wide range in subjects considered by State advisory committeemen is further illustrated by the following quotation from the minutes of a meeting of the Massachusetts State Advisory Committee held April 5, 1949:

The committee expressed serious concern over the size of the area covered by the Worcester (County) office. Supervisor Gleason was present at the meeting and stated it to be a fact that it is not possible for him to service adequately the counties most remote from his office.

At the same meeting the Massachusetts advisory committee expressed itself as follows on the matter of interdepartmental coordination:

The committee next discussed the possibility of wider borrower participation in meetings and tours of the Extension Service. After discussing this matter the committee urged the county supervisors present to do everything possible to secure maximum participation by borrowers in meetings and tours sponsored by the Extension Service, and State Director Munson, of the Extension Service, urged that supervisors maintain a close contact with county agents and experiment stations in order that they will be in a position to assist borrowers with the benefits of all possible new accepted practices.

At a meeting of the New York State Advisory Committee held July 29, 1949, an action was taken which was recorded as follows in the minutes of the meeting:

Wilfred Purdy presented information on a proposed "green pasture" program that is being considered as a means of helping to promote better

agriculture on the farms of our borrowers. Members of the committee were given a copy of the "green pastures" program. After discussion of the pasture program the following resolution was made by George Sluyter, seconded by Philip Craine, and approved:

Whereas this committee looks with favor on the general policy of the "green pastures" program, as presented by Mr. Purdy;

Whereas there is a great variation in soil types, lime and fertilizer requirements, and general agricultural conditions throughout the counties of the State; and

Whereas the development of the complete "green pastures" program on the farms of borrowers will require intensive planning and supervision.

Therefore this committee recommends that this plan be put into effect on the farms of a few borrowers in each county supervisor's area, and that these farms be later used for demonstration purposes to encourage other borrowers to adopt the program. It is further recommended that the county supervisor discuss the plan with the county agricultural agent and the members of the county FHA committee, in order to make the necessary adjustments to meet conditions in the county and on the individual farms.

The following interoffice memorandum written by the author on January 30, 1943, helped to establish an important matter of procedure related to the manner in which the advisory function can best be exercised by State committees:

I think it would be well to advise regional directors that State committee recommendations which follow discussion in open committee meetings are more valuable (to the Administrator) than independent views of separate committee members registered by letter.

The series of meetings of State committee members held during the past several months indicates that the round-robin method of presenting questions to committee members has often been followed. One State committee indicated that one way to save time is to submit questions to the respective State committee members and have the views of the members or their votes, as the case may be, submitted to the secretary of the committee.

This is a dangerous practice and could lead to dissatisfaction within committee ranks. Practically every question submitted to State committees for recommendation requires discussion; and it is not the votes of individual committeemen cast prior to discussion that we want, it is the prevailing opinion of State committees after questions have been discussed.

Appointment, Compensation, and Training of State Committees

The Administrator now appoints State committeemen. The Secretary of Agriculture performed this function for some years but the responsibility was finally delegated to the Administrator as a means of conserving the Secretary's time. When a group of States is under the jurisdiction of one State director, he may, with the approval of the Administrator, establish a single committee for his group.

State committees are composed of nine members representing as many of the major types of agriculture and geographic areas of the State as possible. They may be farm organization representatives, editors of farm or metropolitan publications, or other persons identified with or interested in agriculture. One or two of them may be creditors or landlords. County FHA committeemen are eligible for appointment to State committees. At

least four of the nine State committee members must be persons actually engaged in farming.

For many years, regulations provided that directors of agricultural extension should be ex officio members of State advisory committees. Many of them served in this capacity, but the practice was not universal and the ex officio provision was finally eliminated. However, the director of extension, dean of the college of agriculture, head of the department of agricultural economics or some other college official is usually appointed.

Precautions are taken to keep committees free from partisan political activities or from operating in a manner that serves personal interests in any way. Persons holding office in political parties or candidates for such office and employees of the Farmers Home Administration are ineligible.

Originally, State committeemen were appointed for terms of 3 years. A third of the number retired each year and were ineligible for reappointment until a year had elapsed. This rotation in office has been abolished. State committeemen now receive appointment for a single calendar year. There are both advantages and disadvantages in the 3-year term arrangement. One advantage is that under compulsory rotation there is a constant infusion of new personalities on the committee. The committee cannot become a "closed corporation" in fact or in appearance. Changes in membership are accomplished without hard feeling when there is rotation, since all members are subject to the same rule. When rotation is not adhered to, reappointing one member and failing to reappoint another is likely to cause hurt feelings.

A disadvantage of rotation in office is that very valuable members are forced off the committee for at least a year after a 3-year term during which they have gained much valuable information and experience. It could be argued, however, that they can be reappointed after a year and that their services are not really lost to the program while they are off the committee. The temporary loss of valuable members, however, was thought to be too high a price to pay for the advantages of rotation.

When the Farmers Home Corporation Board determined in July 1938 that State committees should be appointed, it was provided that they should receive compensation at the rate of $10 a day for their services when actually in attendance at meetings, "but not to exceed 6 days per year." There has been a slight adjustment in the pay rate to conform with actions of Congress in increasing the pay of Federal employees. Present instructions provide that committeemen "will receive compensation at the rate of $13.50 a day while attending meetings or performing other services authorized by the State director. Such compensation will not be paid to members for more than 10 days in any one fiscal year."

Before State advisory committees can render the services expected of them, it is essential that they be supplied with information relative to the enabling legislation under which the program is operated, the broad program objectives, the funds and personnel available for operating the program. It is also essential that they be kept currently advised of the progress of the program and significant developments related to it. Persons in position of influence are naturally embarrassed by being uninformed about a program

when they are publicly known to be identified with it in an advisory capacity. That, as previously indicated, contributed much to the downfall of State advisory committees appointed by the Federal Emergency Relief Administration when the rural rehabilitation program was established. To meet problems such as these a suggestive program of committee training and activity was presented by the author at the National Conference of Farm Security officials held in Washington, D. C., in January 1942. It is still applicable. With slight revisions, it is presented below:

1. Appointees who have not previously served on State committees should have an opportunity to visit the State FHA office and be furnished with information relative to FHA program and the manner in which it is administered.
2. They should be provided with a limited amount of carefully selected literature such as—

(*a*) Chart of the organization, showing the number of employees by classes.

(*b*) Leaflets describing the various phases of the program and terms and conditions under which various kinds of loans are made.

(*c*) The latest report of FHA accomplishments.

(*d*) Report on loan funds available.

3. There should be two regularly scheduled, carefully planned meetings of each State committee each year. The meetings should vary as to place and type. Tours culminating in business sessions have been highly satisfactory. It is well to hold State committee meetings in different places so that different phases of the work may be observed.
4. It is desirable that meetings be properly balanced between "giving information to committees" and "consulting committees about fundamental problems and policies."
5. Additional called meetings should be held when circumstances justify.
6. Each State committeeman should, if possible, attend an annual meeting of farm ownership borrowers and a training school for county committeemen.
7. State directors should make it a point to visit committee members on their farms or in their places of business at least once each year for the purpose of talking over informally with the committee member the work of the Farmers Home Administration.
8. Each committee should receive an annual report of progress of all phases of FHA work in his State.
9. Each State committeeman should receive at least two letters a year from his State director. One of them might appropriately accompany the report of the year's activities.
10. It is desirable that State committees receive at least an annual communication from the Administrator of the Farmers Home Administration containing pertinent information about legislative action, appropriation, administrative problems, and policies.
11. Each commtteeman should receive a copy of the minutes of each State committee meeting.

There have, in times past, been tendencies within administrative circles to overlook or minimize the responsibilities implicit in the relationship with State advisory committees. There has, however, been substantial improvement in this situation in recent years. The Administrator of the Farmers

Home Administration now meets personally with many State committees. Minutes of State committee meetings are carefully scrutinized by administrative officials in Washington. Most State directors work very closely with their State committees, keep them informed relative to the program and consult them on policy matters.

Origin and History of County FHA Committees

County rehabilitation advisory committees were first created by the Federal Emergency Relief Administration. "Objectives and Suggested Procedure for Rural Rehabilitation" issued by that agency under the date of June 27, 1934, contained the following paragraph:

It is recommended that a county rehabilitation advisory committee be organized in each county, the members to be appointed by the county relief administrator. The county agricultural agent, the county home demonstration agent, and a vocational agricultural teacher, should be ex officio technical advisers to this committee. This committee should advise relative to the rural rehabilitation program in the county. In some cases the present members of county relief committees will be informed regarding problems and no special rural rehabilitation advisory committee will be required.

It will be noted that FERA "recommended" that county rehabilitation advisory committees be organized where needed. It did not require that they be organized, in fact it probably lacked authority to do so had it been so inclined. There was, however, a general tendency on the part of States to comply with the recommendations of the Federal Government since they were eager to qualify as fully as possible for grants-in-aid, then desperately needed in coping with the mounting problem of unemployment relief. Furthermore, many of the county relief administrators who were in charge of relief in rural areas before the rural rehabilitation program was started lacked the experience requisite to instituting the new program. In all such cases, county rehabilitation advisory committees were urgently needed. The Federal Emergency Relief Administration recognized this fact, but FERA did not continue to direct the rural rehabilitation program long enough to inaugurate or carry out a systematic program of county committee training.

Records do not reveal how many county advisory committees were organized under FERA auspices. In some States practically every county had such a committee. In other States, very few committees or no committees at all were organized. Certainly, there was a lack of uniformity as to the number of persons on committees and the manner in which they functioned. In the United States as a whole, it is probable that between a third and a half of the counties had some sort of county advisory committee functioning in some sort of fashion in FERA days.

When the Resettlement Administration was established by Executive Order April 30, 1935, it inherited the FERA county rehabilitation advisory committees. It was not immediately aware of the extent or importance of this acquisition. Resettlement projects were the paramount interest at the time. However, administration instructions and administration orders issued soon after the Resettlement Administration was created recognized the exist-

ence of county advisory committees and provided for their use. For example, a Resettlement Administration instruction, issued September 15, 1935, stated that county rehabilitation advisory committees would determine whether individuals referred to the Resettlement Administration would be "accepted for further consideration" or "rejected."

On June 7, 1935, a memorandum of understanding was signed jointly by the Administrator of the Resettlement Administration and the Director of the Extension Service of the United States Department of Agriculture. It was issued by the Resettlement Administration as an administration order under the date of September 30, 1935, and contained the following paragraph:

> County committees shall be organized to function in connection with the program of the Resettlement Administration. Members of these committees shall be representative leaders in agriculture and homemaking. They shall be selected by the State corporation board or committee on the joint recommendation of the director of the Extension Service and State director of Rural Rehabilitation. It shall be the function of such committees to consider and make recommendations relative to the eligibility of families proposed for rehabilitation, and approve rehabilitation plans and loans to such families. The county extension agents shall serve on these committees or as advisers thereto.

Under the foregoing policy some progress was made by the Resettlement Administration between 1935 and 1937 in extending committees into new counties but the method of appointing them was somewhat cumbersome and whether they were appointed and activated depended a great deal upon the attitudes of the respective regional and State directors. There was no centrally directed program of committee training and no special administrative emphasis upon the use of county committees. Advisory committee influence on the rural rehabilitation program, therefore, did not reach a high level during this period.

The situation was somewhat different in the farm debt adjustment field. Farm foreclosures and threatened farm foreclosures in the early 1930's had given rise to a system of State and county farm debt adjustment committees. The Farm Credit Administration, then an independent agency of the Government, sponsored the formation of these committees and administered the debt adjustment program for about 2 years.

County farm debt adjustment committees, like state farm debt adjustment committees, were usually appointed by the Governor. In most States, they were called together in groups at central points to receive instruction. They became very active and were imbued with the importance of the service they were rendering. When the Resettlement Administration was created, it was assigned responsibility for farm debt adjustment. Under date of September 20, 1935, the Administrator of the Resettlement Administration sent a letter to State farm debt adjustment committee chairmen and county farm debt adjustment committee chairmen which is quoted below:

> The President has requested the Resettlement Administration to assume responsibility for carrying forward the Farm Debt Adjustment program now in progress in the various States. As you are aware, an organization

of State and county farm debt adjustment committees was developed some 2 years ago in response to a request contained in a letter from Henry Morgenthau, then Governor of the Farm Credit Administration, to the Governors of the respective States. By virtue of effective cooperation between these committees and interested Federal and State agencies a service has been rendered that is generally accepted as having been beneficial to debtors and creditors, and to the general public. It is my desire that the Resettlement Administration may have the benefit of the continued services of the State and county committees already successfully functioning in the field of Farm Debt Adjustment.

A 2-million-dollar budget for continuation of the Farm Debt Adjustment services has been approved by the Allotment Board and signed by the President. A Farm Debt Adjustment Unit has been established in the Field Operations Section of the Rural Resettlement Division . . . This unit, with the assistance of such a staff of debt adjustment specialists as may be required and with the cooperation of our Rural Rehabilitation supervisors in the various counties and districts of the respective States, will be charged with the responsibility of advancing the program of debt adjustments. It shall be their aim to protect voluntary committees from unnecessary duties. Many cases involving chattel debts of rehabilitation clients can be wholly adjusted by rehabilitation supervisors, and much information can be assembled in a preliminary way on cases requiring committee action.

The Resettlement Administration is indebted to the Farm Credit Administration for valuable assistance in taking over the debt adjustment work. This assistance includes a temporary loan of the services of Alvin T. Anderson who has been in charge of debt adjustment activities in the Farm Credit Administration.

In 1937, when farm ownership committees were first appointed, it became necessary immediately to coordinate their activities with those of the county rehabilitation advisory committees and county farm debt adjustment committees already operating under the Farm Security Administration. The new farm ownership committee had legal status. They had specific functions to perform. It was necessary to proceed in a formal manner to appoint them. Gradually, county farm ownership committees were converted into county farm security committees and as such they began to supersede and absorb the functions of all three FSA committees. Administration Order 230 issued October 5, 1937, provided as follows:

In addition to performing the functions specified in section 2 of title I of the Bankhead-Jones Farm Tenant Act, the county committee may also serve as the county farm debt adjustment committee, and as the county rehabilitation advisory committee, thus concentrating all county advisory functions of the Farm Security Administration in a single committee, provided, however, that compensation and reimbursement of county committee members from funds appropriated under the authority of title I of the Bankhead-Jones Farm Tenant Act shall be limited to payment for services rendered in connection with carrying out the provisions of that title.

The members of the national Resettlement Administration staff who were charged with debt adjustment activities were somewhat reluctant to witness the elimination of the special county debt adjustment committees. In support of their position they pointed to reports indicating that the committees which concentrated upon debt adjustment accomplished more in this

field than the dual or multiple purpose committees. Accordingly, the replacement of debt adjustment committees proceeded slowly and without any fixed date for its complete accomplishment.

There was no comparable objection to the absorption of rural rehabilitation advisory committee functions by the new legally authorized county committees. But there could be no complete replacement of either rehabilitation advisory committees or county debt adjustment committees until the farm ownership loan program was extended to all counties. This did not happen for several years.

July 1, 1941, marked the beginning of a new era in county committee history and policy. County farm ownership committees had then been in operation for as long as 4 years in some counties. They had demonstrated their usefulness and there were evidences that the Congress and the public in general viewed their work with favor. There were at that time some counties in which there were three county committees under Farm Security Administration jurisdiction. These were the rehabilitation advisory committees, more or less active as the case might be, county debt adjustment committees, usually quite active, and the especially trained and active county farm ownership committees. There were some counties in which the farm ownership committees had taken over the functions of rehabilitation advisory committees, but not those of the county debt adjustment committees. There were other counties in which the farm ownership committees had absorbed the functions of both the other committees.

At a conference of regional farm ownership chiefs held in Washington, D. C., in March 1941, representatives of four of the regions reported that "a large percentage" of the rehabilitation and farm ownership committees were composed of the same persons. This was another way of saying that one committee did both jobs. In the other eight regions, one committee did both jobs in approximately 20 or 30 percent of the counties.[3]

The action taken in the face of the circumstances revealed above is indicated by the following letter sent by the Administrator of the Farm Security Administration to State FSA advisory committee members under date of May 14, 1941:

Effective July 1, 1941, the Farm Security Administration contemplates a change in methods of appointing and compensating county FSA committees. Three purposes are sought: coordination of the activities of all committees serving the Farm Security Administration; standardizing rates of pay for committee services; and standardizing and expediting methods of appointing committees.

County tenant purchase committeemen are now endorsed by State FSA advisory committees, appointed by the Secretary of Agriculture, under a rotation-in-office system, and paid $3 per day and actual expenses for their services. Farm debt adjustment committees are usually appointed by county supervisors for indeterminate periods and are reimbursed for actual expenses incurred in the performance of their duties. They receive no pay for services. County rehabilitation committees receive neither pay nor reimbursement for expenses. They have been appointed by county supervisors for unstated terms of service.

[3] Journal of Annual Tenant Purchase Conference, 1941.

We now propose to set up county FSA councils in all agricultural counties of the United States, consisting of not to exceed seven members who will serve on one or more committees (Rehabilitation, Tenant Purchase, and Debt Adjustment), and three members at large who will not serve on any committee. Each council member who serves on a committee will receive a flat $4.50 per day, which will cover both pay and expenses. Ordinarily, council members at large will receive no compensation since most of them will be persons receiving compensation from agencies which they represent. All committees will operate under a limited budget. Each member will be appointed for 3 years under a rotation-in-office system similar to that in effect with State committees. Appointment will be by the State director, with the approval of the regional director.

We have carefully considered the matter of having all nominees for appointment on county FSA councils endorsed by State FSA advisory committees. Experience indicates, however, that when there are a substantial number of counties in which committees are to be appointed, as now contemplated, the task of endorsing nominees becomes a burdensome demand upon the time of State FSA advisory committees.

Making appointments to fill vacancies caused by deaths and resignations also presents a problem when State committee endorsement is required. Therefore, rather than increase present demands upon State FSA advisory committees for the purpose of accomplishing a routine task, we have decided to dispense altogether with State committee endorsement of county committee nominees. We expect, however, to consult increasingly with State committees relative to developments and policies of fundamental importance. We also expect to make more rather than less, use of county committees under the new policy.

The county agricultural advisory councils which came into existence on July 1, 1941, in conformance with the above announcement were short-lived and somewhat ill-fated. The war was partly responsible for this outcome. An administration letter issued January 8, 1942, contained the following significant statements actuated by streamlining motives: "Schools for county councilmen and county committees are to be eliminated during the current year. However, a continuous program of education will be carried out. For the duration of the war, the requirement for the rotation of county councilmen and county committeemen is rescinded."

The councils were too complex and their functions too general for successful operation without liberal encouragement and direction from a centralized source. Under the stress of war conditions, such encouragement and direction was not forthcoming nor did "the continuous education program" materialize. It is not certain what the fate of county councils might have been had they been launched at a more opportune time. The difficulty was not, however, wholly one of inadequate encouragement and guidance. The following were the tasks assigned to them:

1. To cooperate with local groups such as county land-use planning committees, AAA committees, and civic organizations in planning and developing a coordinated attack on community problems as they affect low-income farm families.
2. To advise with local FSA personnel in developing an effective program of Rural Rehabilitation.

3. To assist in informing lending institutions, supply and equipment dealers, businessmen of all types, and other local groups as to the objectives and methods of FSA.

4. To meet occasionally to discuss problems relating to the agricultural programs for the community, and the work of the various committees comprising the council.

5. To work with low-income farm families, explaining policies and underlying principles of FSA.

6. To encourage group discussions of all phases of community life, both in their local aspects and in relation to State and National problems, with particular emphasis upon the responsibilities of local communities in solving these problems.[4]

Close scrutiny will disclose that the above functions were quite general in character. Excepting "three members at large" they were to be performed by persons who had specific assignments on one or more of the three special committees. This is indicated by the following description of the manner in which councils were to be organized:

In each county in which there is an FSA program, there shall be a county farm security advisory council, a county RR committee, a county FDA committee and, in counties designated for making TP loans, a county TP committee. The county farm security advisory council shall consist of not less than five and not more than seven members, each of whom will serve on one or more of the above committees, and, in addition, three members-at-large, who will not serve on any of these committees.[5]

It was not an easy task to achieve the interlocking directorate provided for above. Nor was it easy for individuals to make the transition from committeemen with specific duties to councilmen with general duties. It is not to be wondered at, therefore, that the author, then Director of the Farm Ownership Division, was constrained to make the following statement at an administrative staff meeting held in Washington on May 4, 1943:

The past 2 years have been characterized by retrogression rather than by progress in our handling of county committee relationships. Several TP (farm ownership) chiefs have noted this fact and commented upon it. Through our annual schools for county committeemen and county supervisors we used to keep together in our thinking. The rough edges of our ideas were smoothed off by our contacts with level-headed, straight-thinking, down-to-earth committeemen. They in turn kept abreast with the evolution of policies and the reasons for policies. As a result we had unity of thought and action.

Limiting committee service is a move away from rather than toward economy. We need to get back to annual schools for county committeemen and county supervisors. We should explore the possibilities of larger use of committeemen as the program grows and expands.

The interlocking committees and the over-all council is proving to be cumbersome. Its effect has been to pull down the standards of FO committee activity. The remedy is probably to sever the cord that binds the FSA committees together and permit each to go forward under its own steam.

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[4] FSA Instruction 403.1, May 1, 1949.

[5] FSA Instruction 403.1, III E (May 1, 1941).

On July 26, 1943, an order was issued which took cognizance of the above facts. It contained the following statement:

Effective at once, the county farm security advisory councils, county RR committees and county FSA committees are abolished, and one FSA committee composed of three members will perform all of the committee functions in connection with the FSA program within each county. An alternate member will be appointed to act for any regular committee member who is unable to attend the meeting or perform work assigned to the committee. The rotation in office system, previously rescinded for the duration of the war, is restored.

The order which abolished county advisory councils and provided for a single county committee also contained this significant statement: ". . . the training program contemplated for county committees makes it necessary that new committee appointments be completed by September 15." Experience had by that time demonstrated the necessity of systematic committee training.

It should not be inferred from the foregoing that county committees ceased wholly to function during what may be called "the 2-year era of county advisory councils." The respective committees did continue to function. This was especially true of farm ownership committees which had legal duties to perform. It was the merging of the committees into a council which failed to result in an effectively functioning body.

The action of July 26, 1943, set a pattern for county FSA committees which has persisted since that date. The Farmers Home Administration Act of 1946 legalized this pattern by the following provision:

The Secretary is authorized and directed to appoint in each county in which activities are carried on under this act a county committee composed of three individuals residing in the county, at least two of whom shall be farmers residing on a farm and deriving the principal part of their income from farming . . . The Secretary may appoint an alternate for each member of each committee who shall have the same qualifications and be appointed for the same term as such member. The members of each committee shall elect one member to serve as chairman. Members of the committees and their alternates shall be removable for cause by the Secretary.

Current FHA instructions are consistent with the above statute. The authorization for appointing alternates contained in the act has not, however, been exercised. This is because no great difficulty has been experienced in assembling a quorum (two members) for committee meetings. If alternates are appointed, they must, of course, receive the same training and instruction as the regular members and this would add substantially to the cost of maintaining the county committee system.

For a time farm ownership committees, augmented by one additional person, served as county veterans' agricultural loan committees. FSA Instruction 221.3, issued December 22, 1944, contained the following provisions:

There shall be established in each county a veterans' agricultural loan committee which will be known as a certifying committee. Each committee will be composed of four persons who shall be residents of the county.

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Three of the members shall be the same persons who, on any date, serve as regular members, not as alternate members, of the county FSA committee for the county. The fourth member shall be a businessman, if available, who is a veteran of World War I or World War II. If a businessman who is a veteran is not available, and only after every reasonable effort has been exhausted to obtain the service of a qualified businessman who is a veteran, a qualified farmer who is a veteran of World War I or World War II will be appointed.

In counties where a full county FSA committee has been appointed, a certifying committee will be established immediately by the appointment of the fourth member.

The fourth member of the certifying committee will have no responsibility for and will perform no official functions whatever in connection with the regular FSA program.

In counties where a full county FSA committee has not been appointed a certifying committee will not be established until there is a need for the service of such a committee. At that time a sufficient number of committeemen shall be appointed to establish a full county FSA committee, and, in addition, the fourth member will be appointed. When a full county FSA committee has been established in these counties, the committee will then render service for such counties, and its members will become members of the certifying committee.

The foregoing instruction was obsoleted June 24, 1946. At that time the Veterans' Administration took over the full responsibility for certifying loans under the GI bill of rights.

Functions and Activities of County Committees

It should be clearly understood that there is no direct relation between State and county FSA committees. The functions of each are important, but they are separate and distinct. It has been explained that State committees are primarily advisory. They are helpful to administrative officials who formulate policies and are concerned with public relations. County committees perform their services within their respective counties. They work directly with their county FHA supervisors and with applicants for loans and recipients of loans.

To be sure, county committees may perform certain advisory services. Their opinions and attitudes influence the thinking of persons who formulate policies. The fact that they have an important part in determining who are to be the recipients of loans, what farms are to be purchased, enlarged, or improved, and what prices are to be paid has much to do with the public evaluation of the farm ownership program. It is not these general matters, however, with which we are now concerned. It is the specific responsibilities imposed upon county committees by law or by administrative action.

Earlier in this chapter it was explained that county committees determine the eligibility of applicants for production loans and water-facilities loans. They review the progress of production-loan borrowers annually to determine which of them have made sufficient progress to obtain satisfactory credit from other sources, which have made satisfactory progress but require further assistance, and which have failed to make satisfactory progress

FIGURE 3.—The county committee is one of the most important links in the chain of development of family type farm owners. It interviews the applicant (above) to determine his qualifications, and (below) visits the applicant's farm to discover his farming ability and his land and labor resources.

toward rehabilitation and appear unlikely to do so. They review all applicants for the settlement of debts in conformance with Public Laws 518 and 731. For example, it is provided by Public Law 731 that "no compromise or adjustment (of the borrowers' debts to the Government) shall be made upon terms more favorable than recommended by the appropriate county committee." The Housing Act of 1949 imposes additional important and time-consuming responsibilities upon county committees, but the duties that are described hereafter pertain only to that part of the total job of county committees which has to do with the farm-ownership program.

The functions of county committees with respect to farm-ownership loans are thus described in the Farmers Home Administration Act of 1946:

(a) The committees established under section 42 (Public Law 731) shall—

(1) examine applications (filed with the chairman of the County Committee, or with such other persons as the Secretary may designate) of persons desiring to obtain the assistance of the Secretary in financing the acquisition of farms or farming operations in the county as provided in this act; and

(2) examine and appraise farms in the county with respect to which applications are made.

(b) If the committee finds that an applicant is eligible to receive the benefits of this Act, that, in the opinion of the Committee, by reason of his character, ability, industry, and experience, he will successfully carry out undertakings required of him under a loan which may be made or insured under this Act, that credit sufficient in amount to finance the actual needs of the applicant, specified in the application, is not available to him at the rates (but not exceeding the rate of 5 per centum per annum) and terms prevailing in the community in or near which the applicant resides for loans of similar size and character from commercial banks, cooperative lending agencies, or from any other responsible source; and that the farm with respect to which the application is made is of such character that there is a reasonable likelihood that the making or insuring of the loan with respect thereto will carry out the purposes of this title, it shall so certify to the Secretary. The Committee shall also certify to the Secretary the amount which the Committee finds is the fair and reasonable value of the farm based upon its normal earning capacity. The farm shall be appraised by competent employees of the Secretary thoroughly trained in appraisal techniques and the appraisal shall be made available to the County Committee and the Secretary for their guidance in determining the value of the farm as specified above.

As the foregoing quotation reveals, county-committee responsibilities in the farm-ownership program begin with the consideration of applications for loans. The form on which loan applications are submitted calls for the name, address, and location of the applicant. Upon it is recorded the number of persons in the family, their ages, a record of the applicant's farming experience and a financial statement of his assets, liabilities, debts, etc. In addition to the information which the applicant provides upon this form, the supervisor records upon it information which he has obtained that may be helpful to the committee.

The applicant for a farm-ownership loan often appears before the county committee in person, but even when this is done, instructions provide that "whenever practicable, one or more members of the county committee and the county supervisor should visit the applicant at his place of residence before any action is taken by the county committee. Such a visit often will reveal significant facts concerning the family which may come to light in no other way. On the basis of this information and any other available facts, the county committee tentatively will approve an applicant, decide that he should receive later consideration, or determine that presently he is not qualified for a loan.[6]

Instructions provide also that "it will be the responsibility of the county supervisor and the county committee to consider the physical ability of the applicant and his family to engage in successful farm and home management operations." An exception is made in the case of disabled veterans who are specifically authorized to receive loans under certain circumstances without reference to their disability.

There are many reasons why the first action of a county committee upon the applications which it considers is confined to "tentative approval" of those applicants who appear to be qualified to receive loans. In the first place, at the time this tentative action is taken, the applicant may or may not have selected the farm of his choice. Even if he has in mind the farm he desires to purchase, it is not probable that he will have obtained an option on it, or that he will have prepared a plan for operating it or estimates of income and expenses that indicate whether the operation will be profitable. As these subsequent steps are taken, both the county committee and county supervisor become better acquainted with the applicant, and his ability to measure up to the eligibility requirements.

Official instructions provide that "minutes of county-committee meetings at which applicants for farm-ownership loans are considered will show the names of all tentatively approved applicants, those applicants who may receive later consideration, and those applicants not sufficiently qualified to require further consideration." [7]

Committeemen are not required to record in the minutes of their meetings the reasons for withholding approval of unsuccessful applicants. FHA instructions, however, say that ". . . it is desirable that these reasons be set forth briefly on the reverse side of the application form by the county supervisor."

The responsibilities of county FHA committees with respect to farm-ownership farms are as great as their responsibilities concerning persons applying for loans to purchase farms. In order to discharge these responsibilities successfully committeemen must know how much land of a certain type, quality, and location is required to constitute an efficient farm-management unit. They must be familiar with the appraisal system used by the Farmers Home Administration and be able to utilize information contained in appraisal reports in determining earning capacity values of farms. On this point, instructions provide that "in order to obtain this understanding,

[6] FHA Instruction 411.2, III (May 19, 1947).
[7] FHA Instruction 411.2, VIII (May 19, 1947).

county committeemen and the county supervisor should accompany an employee authorized to appraise farms on one or more farms to observe the preparation of Form FHA–596 (the farm-appraisal form)."

Equipped for their task by a broad general knowledge of farming and farming conditions in their home counties as well as by the special information mentioned above, county committeemen may render certain preliminary services related to farm selection before they actually determine the earning capacity of a given farm and execute a certification as to their findings.

Although applicants are urged to select farms of their own choosing, they sometimes have difficulty in doing so. In such cases, county committeemen may help discover suitable available farms. On the basis of cursory preliminary examinations, they may be able to eliminate from consideration farms which are not likely to "appraise out." This saves both time and money.

When a farm has been selected by an applicant which appears likely to meet requirements as to size, price, etc., an option for its purchase is obtained and the farm is appraised by an FHA appraiser. The county committee then visits the farm, examines the land and buildings critically, studies the appraisal report, arrives at a judgment as to its earning-capacity value, and executes a certification. Pertinent portions of this certification read as follows:

We find that the fair and reasonable value of this farm, based upon its normal earning capacity, after the contemplated improvements are made, is $_____; that the amount necessary to acquire the land, free and clear of all encumbrances, to refinance any existing indebtedness on the farm, and to pay necessary fees, is $_____; that the amount necessary for the contemplated farm repairs or improvements is $_____. This committee recommends that a loan of $_____ be made to the applicant to enable him (at this point there is inserted the purposes for which the loan is being made such as "acquire farm," "improve farm," etc.).

F. H. A. instruction 421.3 (1949) under which the foregoing actions are carried out read as follows:

The county committee will enter its determination of the fair and reasonable value of the farm based on its normal earning capacity, after contemplated improvements or enlargements are made, on Form FHA–491 (County Committee Certification). The county committee should give due consideration to the "Earning Capacity Report" prepared by the Farmers Home Administration employee authorized to appraise farms. The normal earning capacity, after contemplated improvements are made, rather than income-producing ability of the farm as indicated on Form FHA–14 and Form FHA–14C (the Farm and Home Plans) should be considered in arriving at this determination. The county committee should not be influenced by the amount of the proposed loan or the average value of efficient family type, farm-management units in the county, as determined by the Secretary, in making the determination, based on the "Earning Capacity Report," and the examination of the farm. In other words, the county committee's determination of the fair and reasonable value should represent its actual bona fide determination with respect to the particular farm under consideration. When the fair and reasonable value of the farm, as deter-

mined by the county committee, exceeds by as much as 5 percent the normal-earning-capacity value as determined by the Farmers Home Administration employee authorized to appraise farms, a specific justification signed by the county committee must be attached to the county committee certification form.

Proposals have been made, in fact bills have been drafted, which if enacted would prevent county committees from certifying farm values in excess of those determined by FHA appraisers. Such proposals have always been viewed with disfavor by the Farmers Home Administration. They would in effect subordinate committee judgment to appraiser judgment. What is desired is a combination of the two. It is recognized that the judgment of appraisers is not infallible. The judgment of committeemen, however, is believed to be less subject to error when the findings of qualified appraisers as to probable yields, prices, expenditures for improvements, expenditures for operations, and net profits are taken into account.

Responsibilities of county FHA committees do not end when applicants obtain loans and become established on farms. If all goes well with a borrower, the committee has no special responsibilities with respect to him until he has progressed to the point where his loan must be refinanced. However, should a borrower and his supervisor disagree as to the amount to be paid under the variable payment plan or as to whether the year for which payment is to be made has been "normal," "above normal," or "below normal," instructions provide that "the matter will be referred to the county committee which will study the case and recommend to the State director the amount it is believed the borrower should pay. . . . The State director will make the final determination and advise the county supervisor." It should be recorded that few disagreements of the kind just referred to have arisen and county committeemen have, therefore, seldom been called upon to act as arbiters.

An amendment to the Bankhead-Jones Farm Tenant Act effective November 1, 1946, requires the borrower, upon request of the Secretary, to "apply for and accept" a loan in sufficient amount to repay his secured indebtedness. In furtherance of this provision, it becomes the responsibility of county committee to join with their county supervisor in considering and making appropriate recommendations to the State director as to when a borrower is ready for refinancing. The policies under which they carry out this obligation are thus stated:

Each year following completion of the checkout, the county supervisor will review all outstanding direct and insured farm-ownership loans made on and after November 1, 1946, and will present for consideration of the county committee those on which 35 percent or more of the principal of the loan has been repaid. The county committee will consider and make its recommendation as to those borrowers who it believes may be able to secure other financing on reasonable rates and terms prevailing in the community but not to exceed the rate of 5 percent. Before making this recommendation, the county committee may deem it advisable to make a preliminary check in the area to determine if such credit appears to be available. Their findings will be included in their recommendation to the State director. Each borrower who the county committee believes may be

able to secure such refinancing shall be notified by a letter from the county supervisor to attempt to secure other financing and report the results of the efforts to the county supervisor within 60 days.[8]

County-committee recommendations are required in connection with the sale or exchange of portions of farm-ownership-loan farms, and in connection with the sale or exchange of water rights.[9]

When a farm-ownership borrower dies and the surviving family desires to discontinue the operation of the farm, regulations call for "the recommendations of the county committee with respect to transfer of the farm, conveyance of title to the Government, sale outside of the program, leasing of the farm, appointment of caretaker, or foreclosure of the security instrument." [10]

At least two members of the county committee must join with the county supervisor in recommending the sale of any farm-ownership farm "outside the program," and county-committee recommendations are required in connection with the compromise, adjustment, or reduction of farm-ownership debts.[11]

County committeemen are called upon to lend helping hands to farm-ownership borrowers in overcoming problems "which might cause them to give up their farms because of discouragement, dissatisfaction, or similar causes." Supervisors are instructed to "seek the advice of members of the county committee and enlist their assistance" [12] in such cases. This service by county committees has proved to be a very important one. Borrowers realize that it was by virtue of committee action that they obtained their loans and that the committees reposed confidence in them at the start. Many who have shown tendencies to resort to slipshod methods have responded to committee reminders that they should fulfill their obligations.

When for one reason or another the transfer of a farm-ownership farm from one borrower to another appears desirable, the recommendation and certification of the county committee are required. In such cases questions of equities may arise between transferor and transferee, and when agreements are reached they must be concurred in by county committees before approval by State directors. In the absence of an agreement between transferor and transferee the committee may recommend the amount of equity they consider to be due the transferor.

The county committee must recommend the terms of release of transferors from personal liability before such action can be taken. In cases in which loss to the Government is involved, they must, when they believe it to be true, certify that the transferor has acted in good faith.[13]

In the case of voluntary conveyance of farm-ownership-loan farms to the Government, county committees are required "to make appropriate recommendations with respect to the fair and reasonable value of the farm."

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[8] FHA Instruction 465.1, III (July 8, 1948).
[9] Ibid. IV, A 3 and 4.
[10] FHA Instruction 465.1, X, A, 2 (July 8, 1948).
[11] Ibid, XI and XIII.
[12] Administration Letter 31 (465) V. A. (June 3, 1947).
[13] Administration Letter 31 (465) VI, H (June 3, 1947).

They are also called upon to recommend and certify with respect to releasing a borrower from personal liability.[14]

County committees are involved in two ways in connection with all foreclosure proceedings. Instructions provide that "foreclosure action will be recommended only in the case in which the country supervisor, the county committee, and the State field representative have been unable to work out a satisfactory solution whereby the borrower will carry out the provisions of his security instrument and other agreements." When all reasonable efforts to avoid foreclosure have failed and it becomes inevitable, the county committee must join the county supervisor in the recommendation favoring such action.[15]

Appointment, Compensation, and Training of County Committees

County committeemen are nominated jointly by the county FHA supervisor and the State FHA field representative. They are appointed by the State FHA director. The following six eligibility standards for county committeemen have been established for the guidance of nominating officers and employing officers:

1. They should be persons of good standing and judgment.
2. They should have demonstrated an interest in community and public affairs.
3. They should be familiar with Farmers Home Administration objectives and be in general agreement with these objectives.
4. They should have an understanding of good farm and home practices, soil management, credit, marketing, and related factors applicable to the area.
5. If practicable, they should represent various sections of the county.
6. Potential new leaders should be selected in preference to persons overburdened with other committee duties.

The view has been expresed that appointed committees will be subservient to the agency which appoints them and lack the freedom of judgment and action which is so greatly to be desired. FHA experience does not support this view. Appointees are citizens of high standing and good repute in their home communities and counties. They are not likely to permit their obligations as citizens to be compromised by the small per diem they receive for the part-time services rendered. These services are such as to emphasize the public nature of the responsibilities involved. Committees have recognized this fact and have not been inclined to function as special advocates of borrowers or the Farmers Home Administration.

FHA experience with appointed county committees has been highly satisfactory. It is also true that no practical means has been devised for electing county FHA committeemen. Since they represent public interest rather than borrower interest, they cannot appropriately be elected by borrowers. The average citizen, even the average farmer, has only a very general interest in the selection of FHA committeemen. Certainly his interest is not sufficient to induce him to go to the polls on election day to

[14] FHA Instruction 465.3, VI (November 14, 1947).
[15] FHA Instruction 465.4, III and IV (July 1, 1948).

vote for county committeemen. Nor has a means been provided for meeting the expenses of public elections. In the respects just mentioned, the Farmers Home Administration differs from Government agencies whose participants are sufficiently numerous to elect from their own ranks.

County committeemen are paid a basic daily rate of $4.50 plus $2 in lieu of travel and subsistence expenses when actually employed. For half days, they receive half the daily rate, but the full $2 allowance in lieu of travel and subsistence. Each committeeman serves a 3-year term. Terms are staggered so that one member retires each year. No member is eligible for reappointment until after a lapse of 1 year, except that a person who has served for less than 1 year in filling the unexpired terms of a predecessor may be reappointed immediately for a 3-year term. At the first meeting of each

FIGURE 4.—Schools for FHA county committeemen are held annually. Pictured above are Farm Security Administration officials and county committeemen attending the school at Camden, S. C., December 18, 1937—first in the United States.

fiscal year, the members select one of their number to serve as chairman for that year. Two members of the committee constitute a quorum and a majority vote is required in all formal transactions.

In view of the legal and technical nature of services rendered by County FHA committees, it is, of course, essential that they be trained for the performance of their duties. As indicated in chapter II, appointing and training county committees was one of the major undertakings during the first year of operation. Loans could not be made without committee action. It was essential that committee training precede committee action. A general pattern for committee training schools was, therefore, developed late in 1937. In 1939 the plan was reduced to writing and a copy of that plan follows:

I. *Purpose of county committee schools*

To develop a common understanding of objectives, policies, and procedures essential to successfully carrying out the provisions of title I of the Bankhead-Jones Farm Tenant Act.

II. *Dates*

As soon as possible after county committees have been appointed by the Secretary of Agriculture and before committees begin the actual certification of applicants or farms.

III. *Number and distribution*

Thirty or forty persons, including committeemen, supervisors and instructors, constitute a desirable sized group for a school. This will mean bringing together representatives from four to six counties.

IV. *Time required for conferences*

Experience last year indicates that it is unwise to attempt to confine the school to less than one day and a half.[16]

V. *Attendance*

1. County rural rehabilitation supervisors from designated counties.
2. County home supervisors from designated counties.
3. County committees in designated counties.
4. County agricultural agents from designated counties.
5. District farm and home supervisors covering designated counties.
6. State directors and associate State directors of rural rehabilitation.
7. State tenant purchase specialists in States having such specialists.
8. Regional chief or associate regional chief, tenant purchase section.
9. Tenant purchase engineer.
10. Regional director and assistant regional director in charge of rural rehabilitation, when available.
11. Representative of solicitor's staff, regional office.
12. Technical appraiser.
13. Regional farm management specialist.

VI. *Instructional staff*

The chief of the tenant purchase section of the regional office and the State director, with the assistance of a representative from the Washington office when available, shall be responsible for conducting the first school in each State. The regional chief and State director shall conduct subsequent schools or definitely arrange for leaders for such schools. It is desirable that there be present to participate in the discussion at the appropriate time a tenant purchase engineer, a regional farm management specialist, and a representative of the regional attorney's office. The manual should be used as a text for the school. Speeches, other than necessary remarks by persons in charge, should be discouraged. In other words, the school is for the purpose of reviewing, explaining and discussing the policies and instructions.

There has been no great change in the type of committee schools during the past 10 years. There has, however, been a progressive decentralization

[16] Despite the advantages of extending a committee school into the second day, committeemen have found it so difficult to be away from their farms overnight that 1-day sessions have become the general pattern.

of responsibility for organizing and conducting the schools. Current instructions provide that:

State directors are responsible for seeing that county committeemen are provided the training needed by them to understand the objectives of the Farmers Home Administration and to understand and perform properly their duties and responsibilities as prescribed in the various operating instructions. Training meetings for county committees will be held annually as soon as practical after the beginning of each fiscal year, and should be scheduled so as to derive the benefits of a concerted effort. The number of persons assembled at any one meeting should not be greater than can participate advantageously in group discussion. In the training program, particular attention will be given to (*a*) evaluating the qualifications of applicants, (*b*) interpreting the family-type farm definition in local terms, (*c*) explaining supervised credit, (*d*) reviewing borrowers' progress to determine future credit needs, and (*e*) defining the duties and services of county committeemen as prescribed by law. County supervisors are responsible for keeping county committeemen advised currently of changes in the policies of the Farmers Home Administration which affect their work, and of the status of the program in counties in which they serve.[17]

The national Farmers Home Administration office issues a county committee manual or handbook. It is revised from time to time as laws or policies are changed. It is used somewhat as a text book in committee schools.

[17] FHA Instruction 236.1, V (June 3, 1949).

Chapter V

DISTINCTIVE FEATURES OF FARM OWNERSHIP LOANS

Farm Ownership loans differ from the farm mortgage loans ordinarily made by individual lenders or by private or cooperative lending agencies in that their primary purpose is to foster and preserve owner-operation of family-type farms in the United States. Various laws which have similar general aims, have been enacted from time to time throughout our history.[1] In no other Federal farm mortgage credit legislation, however, has the attainment of specific land-tenure objectives been so definitely the end in view.

The cooperative Federal Land Bank system, with its affiliated Federal Farm Loan Associations, operates under legislation which tends to favor loans to operators of family farms, but rather wide latitude is allowed and the farms involved may be larger or smaller than family farms. The applicable provision of the Federal Farm Loan Act reads as follows: "The amount of loans to any one borrower shall in no case exceed a maximum of $100,000, but loans to any one borrower shall not exceed $25,000 unless approved by the Land Bank Commissioner, nor shall any one loan be for a less sum than $100, but preference shall be given to applicants for loans of $10,000 and under." [2]

How important is this objective? Is the owner-operated family-type farm merely a sentimental tradition which has persisted beyond its usefulness into a machine and power age? Do our times really call for larger units? Is the family farm destined to be superseded by the large scale, corporate or industrial farm? Data and testimony on these subjects are available from many competent sources including church groups, economists, statesmen, and research workers.

Let us look first to church leaders for an appraisal of human values involved in the subject under consideration. Representatives of leading Protestant denominations meeting at the Garrett Biblical Institute in Evanston, Ill., March 22–24, 1948, found that life on a family-farm stimulates individual development through a blending of manual skills with administrative responsibilities, that it contributes to family unity and stability and that it affords a favorable environment for the development of rich religious experiences.[3]

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[1] See ch. I: Homestead Act of 1862; Reclamation Act of 1902; Federal Farm Loan Act of 1916.

[2] Federal Farm Loan Act, July 17, 1916, c. 245, § 12, 39 Stat. 370. As amended by the acts of March 3, 1923, c. 252, § 307, 42 Stat. 1476; May 12, 1933, c. 25 § 25 48 Stat. 44; June 16, 1933, c. 98, § 90 (a), 48 Stat. 273; and October 29, 1949, Public Law 433, 81st Congress (1st sess.).

[3] Commission III, Values of the Family Farm, Proceedings of the Conference on a Protestant Program for the Family Farm.

Contemporary economists of recognized standing expressing themselves in Chicago in 1946 on the subject of "The Place of the Family Farm in Our Land Tenure System" said, "The family farm as a going concern has been demonstrated to have significant advantages over other types of farm organizations in each of three spheres—the economic, social, and political. Some of these advantages may be given added strength by appropriate complementary institutions." [4] The economists added that "the family farm also has a number of disadvantages some of which are inherent in its very structure" [5] but these disadvantages were not considered sufficiently serious to alter the generally favorable verdict of the economists.

Confirmation of the significance of land-tenure patterns is to be found in a comparative report of progress made by two California cities, and contained in "A Study in Central Valley of California on Effects of Scale of Farm Operations," Senate Committee Print No. 13, Seventy-ninth Congress, second session. The two communities studied were generally similar except that one was made up of large-scale farms and one of smaller farms conforming generally to the family-type pattern.

The following is a summary of the findings of this study:

(1) The small farm community supported 62 separate business establishments, to but 35 in the large-farm community; a ratio in favor of the small-farm community of nearly two to one.

(2) The volume of retail trade in the small-farm community during the 12-month period analyzed was $4,383,000 as against only $2,535,000 in the large-farm community. Retail trade in the small-farm community was greater by 61 percent.

(3) The expenditure for household supplies and building equipment was over three times as great in the small-farm community as it was in the large-farm community.

The investigation disclosed other vast differences in the economic and social life of the two communities, and affords strong support for the belief that small farms provide the basis for a richer community life and a greater sum of those values for which America stands, than do industrialized farms of the usual type.

(4) The small farm supports in the local community a larger number of people per dollar volume of agricultural production than an area devoted to larger-scale enterprises, a difference in its favor of about 20 percent.

(5) Notwithstanding their greater numbers, people in the small-farm community have a better average standard of living than those living in the community of large-scale farms.

(6) Over one-half the breadwinners in the small-farm community are independently employed businessmen, persons in white-collar employment, or farmers; in the large-farm community the proportion is less than one-fifth.

(7) Less than one-third of the breadwinners in the small-farm community are agricultural wage laborers (characteristically landless, and with low and insecure income) while the proportion of persons in this position

[4] Joseph Ackerman and Marshall Harris, Family Farm Policy. Chicago: University of Chicago Press. Page 402. The members of the committee on "The Place of the Family Farm in Our Land Tenure System" submitting the report from which the passages are quoted were Theodore W. Shultz, chairman; Henry C. Taylor, vice chairman; George H. Aull, secretary; and J. F. Booth, Lippert S. Ellis, J. I. Falconer, V. Webster Johnson, John Muehlheier, and Anne Taylor.

[5] Ibid., p. 402.

reaches the astonishing figure of nearly two-thirds of all persons gainfully employed in the large-farm community.

(8) Physical facilities for community living—paved streets, sidewalks, garbage disposal, sewage disposal, and other public services—are far greater in the small-farm community; indeed, in the industrial-farm community some of these facilities are entirely wanting.

(9) Schools are more plentiful and offer broader services in the small-farm community, which is provided with four elementary schools and one high-school; the large-farm community has but a single elementary school.

(10) The small-farm community is provided with three parks for recreation; the large-farm community has a single playground, loaned by a corporation.

(11) The small-farm town has more than twice the number of organizations for civic improvement and social recreation than its large-farm counterpart.

(12) Provision for public recreation centers, Boy Scout troops, and similar facilities for enriching the lives of the inhabitants is proportioned in the two communities in the same general way, favoring the small-farm community.

(13) The small-farm community supports two newspapers, each with many times the news space carried in the single paper of the industrialized-farm community.

(14) Churches bear the ratio of two to one between the communities, with the greater number of churches and churchgoers in the small-farm community.

(15) Facilities for making decisions on community welfare through local popular elections are available to people in the small-farm community; in the large-farm community such decisions are in the hands of officials of the county.

Let us now consider briefly the question of relative efficiency of family size and large-scale farms. It is at this point that the family farm is assumed by many to be vulnerable.

Family farms purchased by Farm Ownership borrowers are in the small and medium family-size group but big enough to utilize the labor supply of an average farm family, equipped with modern tools, equipment and machinery for farming. Research data suggest that farms in this class are less efficient in some respects than larger farms. They are more efficient in other respects. On the whole they are not likely to lose out in competition with large scale farms when relative efficiency and all other facts are considered.

A study was made on 170 farms in 16 counties in north-central Illinois to determine the "relation of size of Corn Belt farms to efficiency of production, soil conservation, farm population, amounts of products produced, and value of products sold." [6] The farms were divided into eight size groups as follows: under 140 acres; 140 to 179 acres; 180 to 219 acres; 220 to 259 acres; 260 to 299 acres; 300 to 339 acres; 340 to 459 acres; 460 acres or more in size.

The following are some of the findings of this survey:

[6] From paper presented by M. L. Mosher, Department of Agricultural Economics, College of Agriculture, University of Illinois, at conference on "A Protestant Program for the Family Farm, Evanston, Ill., March 22–24, 1948.

1. As measured by the net earnings per $100 investment in total farm capital, farms in the four groups including the 140 to 299 acre farms appear to be slightly more efficient than the farms under 140 or over 300 acres. . . .

2. Small farms are not able to use labor and machinery as efficiently as larger farms, as shown by the higher cost of machinery and labor per crop acre and the smaller number of man work units worked per man.

3. Large farms, where much of the work is done with hired labor, tend to have lower crop yields and less efficient livestock.

4. The total number of men required to operate the farms in the eight county-equivalent areas declines rapidly from 5,314 for the small-farm county to 2,491 for the large-farm county.

5. Considerably more tillable land was kept in soil-building legumes and less in grain on the farms in the small-farm area than in any other area. . . .

6. The average annual farm and family earnings increased rapidly from $3,880 per farm under 140 acres to $13,860 per farm of 460 or more acres. (It should be kept in mind that these earnings are divided between the tenants and landlords on rented farms.)

7. With reasonable thrift, a farm family with three children can live well in a modern home, provide college education for part of the children, and save for old-age security with average yearly earnings of $4,000 to $5,000 during times like those that prevailed from 1936 to 1945.

8. The greatest production of crops, considering grain, silage, hay pasture, and some miscellaneous crops was on the areas of farms under rather than over 260 acres in size. The greatest production of livestock and livestock products was on the two areas of farms under 180 acres in size.

9. Production of dairy products, hogs, and poultry was heavy on the county-equivalent areas made up of small farms under 140 acres. Hogs, poultry, and dairy products were prominent on the 140 to 179 acre farms.

10. . . . the total amount of salable products which go to feed and clothe the people in towns and cities and foreign countries was greater on small-to-medium-sized farm areas than on large-farm areas in the heart of the Corn Belt. However, the smallest farms require up to twice the labor needed to produce about the same amounts of salable products on the largest farms.

Some readers may agree in general with the evaluation of the family farm presented in the preceding pages of this chapter, but hold to the view that tenancy is declining rapidly and that nothing needs to be done about it. Such an inference does not appear to be warranted by a thoroughgoing analysis of all census data bearing upon the subject. Part of the decline in tenancy has been due to the substitution of hired workers for share croppers on plantations. When the tenant group and the farm labor group have been added together they have in all census tabulations to date constituted the predominant element among those gainfully employed in agriculture and it is probable that this will be true when the 1950 census is analyzed. Certainly, tenants plus farm laborers plus share croppers, plus occupants of undersized and underdeveloped farms would add up to a predominant group in the farm labor force of the Nation.

The Primary Purpose of Farm Ownership Loans Is To Carry Out a National Land Tenure Objective

In view of what has been said previously in this chapter, carrying out the national land-tenure objective of preserving family farms is placed first

among the distinctive features of farm ownership loans. FHA Instruction 403.1 amplifies the brief statement of purposes set forth in the preamble to the Bankhead-Jones Farm Tenant Act. This instruction says:

The broad purposes of farm ownership loans are to:

1. Provide credit which is not otherwise available to promote more secure occupancy of farms and farm homes by families who derive the major portion of their income from farming operations.

2. Correct the economic instability resulting from some present forms of farm tenancy by substituting farm ownership for farm tenancy.

3. Promote farm ownership by making loans and insuring mortgages to enable qualified farm tenants, farm laborers, share croppers, veterans and other individuals to acquire, repair or improve family size farms or to enlarge, repair, or improve farms which are undersized or underimproved and which can be enlarged, repaired, or improved so as to constitute efficient family type farm-management units.

4. Promote farm ownership by making loans and insuring mortgages to enable qualified disabled veterans to acquired, enlarge, repair, or improve farm units of sufficient size to meet their needs and farming capabilities.

5. Preserve the family type farm in the continental United States and in Alaska, Hawaii, and Puerto Rico by providing the type of real estate credit necessary to permit eligible persons who cannot secure such credit elsewhere to acquire, enlarge, or improve farms so that such farms will constitute family type farms.

They May Be 100-Percent Loans

Viewed against a background of traditional theory and practice one of the distinctive things about direct (not insured) farm ownership loans is that they may be, and in fact generally have been, 100-percent loans. Very few borrowers have made any down payment out of their own capital reserves on the farms they have purchased. The few who have made down payments have usually made small ones. Likewise, owners' equities have been small in the farms which have been enlarged or developed with the proceeds of farm ownership loans.

The section of the Bankhead-Jones Farm Tenant Act relating to down payments reads as follows: "In making available the benefits of this title the Secretary shall give preference . . . wherever practicable to persons who are able to make an initial down payment, or who are owners of livestock and farm implements necessary successfully to carry on farming operations." [7] An amendment was incorporated in the act of 1946 which has an indirect bearing upon the matter of down payments. It reads as follows: "The Secretary, under this Act shall make no loan . . . to any person, unless the applicant represents in writing, and it is administratively determined by the Secretary, after a certification to such effect by the appropriate county committee, that credit in sufficient amount to finance the actual needs of the applicant is not available to him at the rates (but not exceeding the rate of 5 per centum per annum) and terms prevailing in the community in or near which the applicant resides for loans of similar size and character

[7] Bankhead-Jones Farm Tenant Act, title I, sec. 1 (b).

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from commercial banks, cooperative lending agencies, or from any other responsible source." [8]

The first of the foregoing sections defines somewhat indefinitely the lower limit of loans in terms of borrowers' financial resources. Preference must be given to an applicant who can make a down payment or one who owns livestock and farm machinery necessary for carrying on his farming operations. It is not necessary that he do both these things but wherever practical preference is to be given to an applicant who can do one or the other of them. Those whose financial resources fall below this mark are considered to be ineligible for loans.

The second of the foregoing provisions establishes a ceiling above which loans cannot be made. If an applicant can get needed credit in his community from private or cooperative sources at rates not to exceed 5 percent, he is not eligible for a farm ownership loan. This was observed as a matter of policy before it was made a legal necessity by the amendment of 1946.

As a practical matter an applicant who owns all of the work stock, machinery, tools, and equipment he needs and in addition thereto has enough capital to make a substantial down payment on a farm usually is able to obtain a farm purchase loan at prevailing rates and terms from a private or cooperative lender in his community. Therefore, eligible applicants as a rule come from a group whose financial status is such that they are not likely to be able to make down payments in addition to owning their chattels.

This being the case the question arises as to whether such funds as the applicant possesses should be invested in chattels or as a down payment on his farm. A chattel debt usually matures in a shorter period of time and usually bears a higher rate of interest than a farm mortgage debt. It is better financing, therefore, for a borrower to concentrate whatever capital he may have in his work stock, tools, and equipment than it is to make a down payment on his farm. This explains why most of the loans made have been 100-percent loans. Between July 1, 1941, and December 31, 1949, only 1,017 borrowers out of a total of 15,831 made down payments. These down payments totaled $570,964 or less than one half of 1 percent of the $116,558,998 loaned to the 15,831 borrowers.

There is a scriptural saying that "where your treasure is, there your heart will be also." This suggests that there is a moral advantage in requiring an initial down payment. It is true that a borrower whose own savings are all invested in movable chattels could occupy a farm for a year or more without paying an installment on his debt, and then move on to other destinations. Essentially, while he remained on the farm he was supposed to be paying for, he would be enjoying free rent at Government expense.

A borrower who would resort to the practice mentioned would, of course, be dishonest. His aim would not be to acquire ownership of a farm. Rather it would be to live by cheating and defrauding others. The character and integrity of applicants for farm-ownership loans is very thoroughly considered by county committees and county FHA supervisors, and among the many borrowers who have obtained 100-percent loans there have been very few who have shown a tendency to take advantage of the fact that no

[8] Ibid., sec. 44 (a) (3).

down payment has been made. Nevertheless, for the reasons mentioned, a down payment, even a small one, is desirable and should be required when it can be made without resulting in a burdensome chattel debt on which large annual installments must be paid at the very time the borrower is getting his start. Borrowers who obtain insured mortgage loans are required to make a 10-percent down payment, or in the case of an enlargement or development loan, to own a 10-percent equity in their farms.

A report of a committee on postwar agricultural policy of the Association of Land Grant Colleges and Universities, issued in October 1944, contained the following statement with reference to down payments:

The making of Government loans of substantially 100 percent of the price of farms is not a sound method of promoting general farm ownership even under normal conditions. With land values at inflated levels the probability of difficulties in the postwar period is especially great. Under such conditions it is very doubtful if the owner of a farm with little or no equity would be as well off as if he were a tenant.

If a Government-sponsored farm purchase program is to have a reasonable chance for success, loans to carefully selected borrowers must be based on long-time income values. Also, purchasers should be required to make a cash down payment of at least 15 percent in addition to having substantial equity in the necessary livestock and machinery, and a fair land purchase contract should be employed until the debt has been reduced to the proportions of the usual first mortgage.

Since the foregoing quotation presents the traditional viewpoint of farm mortgage lenders and agricultural economists, and since farm ownership loans have not been and are not now made in conformance with it, some further elaboration of the subject appears to be called for.

The experience of the Farmers Home Administration suggests that the solvency of the farming operation has more to do with whether the debt will be repaid than does any down payment by the borrower at the time of purchase. The lender's chief security, granting the selection of honest, industrious and capable applicants, lies in the borrower's ability to make enough money to operate his farm, support his family in health and reasonable comfort and convenience, and repay his debt. If he makes that much money he will succeed in attaining his objectives, and the lender can reasonably expect that his debt will be repaid with interest.

The Farmers Home Administration has found the following factors to be important from the standpoint of borrower progress:

1. Selection of a family well-qualified from the standpoint of ability, integrity, industry, and farming experience.
2. The selection of a farm on which it is possible for a qualified family to make a satisfactory living.
3. Limiting the investment in the farm to its actual value from an earning capacity standpoint.
4. Putting the farm in livable and operable condition at the start.
5. Developing a system of farming to which the community is adapted and which is consistent with the borrower's interests and capacities.
6. Following good farm management, home management, and money management practices.

7. Conserving the soil and maintaining the buildings and improvements in a good state of repair.

8. Financing the purchase of the farm with a loan that is reasonable as to interest rate, term and repayment schedule—in other words, with an amortized loan including a variable repayment provision.

There can be little doubt that research would further confirm the findings of experience as to the importance of each factor enumerated above. It is strongly surmised that, if the success of the borrower be accepted as the standard of measurement, neither experience nor research will reveal that the percentage of down payments made by a borrower is a consideration of primary importance.

It may be contended that since the farm ownership loans have been made during a period of rising prices for farm commodities and farm real estate that the policy of making 100-percent loans has not yet been subjected to an acid test. Certainly it is true that during periods of extreme depression farmers in general make little, if any, progress in reducing their farm mortgage indebtedness. In fact, many farm mortgage debts have fallen delinquent in such times, and foreclosures have been numerous. Certainly a farmer who has no debt at all on his property or a very small one will fare better in a depression than a farmer with a large debt. This is another way of saying that the greater the savings one has accumulated, the more successfully will he survive a period during which he is losing money.

However, a solvent farming enterprise will meet the living and operating expenses of the operator and yield a return on the capital investment whether it be owned capital or borrowed capital. Naturally, the lender will be better protected if the borrower owns a substantial equity in his farm. Under such circumstances the borrower may go broke while the lender sustains no loss at all.

During periods of depression and declining farm real estate prices a situation can develop in which farm purchasers holding small equities in their farms can abandon them and purchase other farms for less than the indebtedness against the abandoned farms. This situation existed following World War I before the farm-ownership program was started. At that time some farms in the United States were turned over to holders of mortgages for the reason indicated. The Farmers Home Administration recognized this possibility although it is a remote one in the case of borrowers with very limited capital for the simple reason that they could not readily buy other farms. Two FHA policies serve to minimize such dangers as may exist. First, borrowers are encouraged to build up equities a rapidly as possible under the variable payment system; and second, the ties that bind them to their farms are strengthened by the policy which will be discussed later, of putting farms in livable and operable condition at the start. The things which farm families do to make their farms and their homes livable and attractive often have more to do with their attachment to them than a few hundred dollars of equity.

Contingencies which may arise when a farming enterprise becomes unprofitable cannot be disregarded in a farm mortgage lending operation. Measures taken to forestall unprofitable operations are, however, more im-

portant. The Farmers Home Administration places primary emphasis upon such measures. In so doing it believes that both borrower and lender are protected and that this should be the aim back of any sound system of farm mortgage credit.

The assertion that a farm owner with little or no equity would be as well off if he were a tenant is open to question. Often the minimum annual debt amortization installments plus taxes, insurance, and depreciation amount to less on a farm-ownership farm than rental charges on the same farm would be if it were tenant operated. Under these circumstances, it is very difficult to see how a farm family could be better off in the farm-renting class than in the farm-owning class.

When the Bankhead-Jones Act was amended in 1946, it was provided with respect to insured mortgage loans, that "the principal obligation (and fees and other charges chargeable under subsection (d) of this section) shall not exceed 90 per centum of the reasonable value of the farm and necessary repairs and improvements thereon, as such values are certified by the county committee pursuant to section 2 (b)." [9]

A problem of coordinating the direct loan and the insured loan was precipitated by this amendment. This was clearly set forth in the Administrator's testimony before the Agricultural Subcommittee of the Committee on Appropriations of the House of Representatives on April 15, 1947. The applicable portion of the statement was as follows:

If the two types of loans are offered simultaneously and without controls, it is obvious that applicants in general will choose direct loans in order to avoid the payment of fees, however nominal, and that the direct loan will be chosen also by all eligible borrowers who do not desire to make or who are unable to make a 10 percent down payment. It is our intention, therefore, to require that insured mortgage loans, when available, be made in all instances in which the circumstances of the applicant are such that he can make a 10 percent down payment and also pay the fees required to be charged. . . .

Under a policy of requiring a borrower to take an insured mortgage loan when practical, we believe that an insured mortgage loaning program and a direct loaning program can operate successfully, side by side, in such a manner as to supplement one another and without jeopardy to the success of either. In determining whether an applicant can make a down payment, we would not go to the extent of requiring him to liquidate essential chattels in order to acquire capital for the 10 percent down payment. The result of such liquidation would be to force the borrower to incur chattel debts to replace the livestock and equipment he has sold. Annual repayments on these chattel debts, because of their shorter term, are often larger than a borrower can meet. Thus, the benefits of a long-time low interest rate loan contemplated for eligible applicants would be lost and the borrower's success jeopardized.[10]

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[9] Farmers Home Administration Act of 1946, sec. 12 (c) (5).

[10] Hearings before subcommittee of the Committee on Appropriations, House of Representatives, 80th Cong., 1st sess., Department of Agriculture appropriation bill for 1948. P. 1440, Pt. 1.

Farm Ownership Loans Are Supervised

Another distinctive feature of farm-ownership loans, perhaps the most distinctive feature of all, is that they are supervised. A 100-percent loan or a 90-percent insured loan made to an applicant whose credit situation is such that he is unable to obtain a farm purchase loan from private or cooperative sources, depends for its soundness upon a good system of farming being adopted and good farm management, home management, and money management practices being followed. In fact, a loan that could not safely and consistently be made by a private lender could not, by the same token, safely and consistently be made by the Federal Government if the usual hazards associated with lending to a borrower with limited equities and limited resources were not offset by more than usual assurance that the farming operation will be successful. It is the aim of supervision, therefore, so to reduce the hazards of extending loans to worthy families in the low income group that it becomes possible to help them become established as owners of family farms.

Authority for supervision designed to assure good systems and practices of farming is contained in the Bankhead-Jones Farm Tenant Act in the following language:

> The instruments under which the loan is made and security given therefor shall . . . be in such form and contain such covenants as the Secretary shall prescribe . . . to assure that the farm will be maintained in repair, and waste and exhaustion of the farm prevented and that such proper farming conservation practices as the Secretary shall prescribe will be carried out.[11]

Before the act was amended in 1946 the foregoing reference to farming practices did not contain the word "conservation." The language was "to assure that such proper farming practices as the Secretary shall prescribe will be carried out." This original language appeared to be susceptible of only one interpretation, namely, that the Secretary of Agriculture was authorized to prescribe proper farming practices and that instruments, meaning legal documents properly signed by the borrower, were to be in such form as to give the Secretary power to enforce compliance with what he prescribed. That merely meant that the Secretary, represented in this instance by the Farm Security Administration, had the legal authority to require borrowers to carry out what he deemed to be good farming practices if he cared to do so. Never at any time, however, was it the policy to proceed in such manner. It was not considered either wise or necessary to "prescribe" proper farming practices. There appeared to be a better way to get good farming done.

What was the significance of the change in the wording of the authorization to supervise loans? Did the addition of the word "conservation" when the act was amended mean that the Congress has changed its mind on this matter of the extent to which loans should be supervised, and that it came finally to the conclusion that the Government's interest would be adequately protected if properties given as security for loans, that is land and the

[11] Bankhead-Jones Farm Tenant Act, as amended August 14, 1946, title I, sec. 3, par. (a) 4.

improvements upon it, were conserved, regardless of whether good farming was otherwise practiced?

The legislative history of this amendment does not suggest such a change in views by the Congress. The Congress did, on the other hand, express in no uncertain terms its disapproval of the regimentation of borrowers. Referring to the several different types of loans made by the Farm Security Administration, not specifically to tenant-purchase loans, the select committee of the House Committee on Agriculture said:

> Families have been colonized, regimented, and supervised to an extent which cannot possibly be justified. It has been insisted arbitrarily that they keep records which many of them have found impossible to keep and maintain. They have been told what crops to plant and how they must be cultivated. They have been told from whom they must purchase and to whom they must sell. Their bank accounts have been completely controlled and kept under joint ownership by the Government, and they have not even been permitted to select their own work stock and other equipment. Supervisors of the Farm Security Administration have insisted upon discussing with members of the family the most intimate relationships. . . . The Federal agency making loans to low-income farmers should be authorized, where necessary, to give sensible supervision to the farmers and their families. . . . It should never be carried to the extreme of dictating the plans for the entire social, community, and family life of the borrower. It should be limited to reasonable and practical suggestions and advice in farm and home planning and management.[12]

The foregoing statement of the select committee indicates very clearly what it believes supervision should not be. What the committee thinks it should be is reflected in the sentences "The Federal agency making loans to low-income farmers should be authorized, where necessary, to give sensible supervision to farmers and their families. . . . It (supervision) should be limited to reasonable and practical suggestions and advice in farm and home-planning and management."

The committee which expressed this view as to what supervision should be is the committee which sponsored the 1946 amendments to the Bankhead-Jones Farm Tenant Act. One of these amendments authorized the Secretary of Agriculture to include in the note to be signed by the borrower "such provisions for the supervision of the borrower as the Secretary shall deem necessary for the protection of his interests." Not only is supervision specifically authorized by this enactment but it appears that the above-quoted excerpts from the committee report may be accepted as indicating what is contemplated by the provision of the act which imposes on the Secretary responsibility for prescribing that proper farming conservation practices will be carried out.[13]

In this general discussion of supervision the views of an authority on agricultural credit who has not been associated in any way with the administration of the Bankhead-Jones Farm Tenant Act appear to be pertinent. Writing in the August 1945 issue of the Journal of Farm Economics under

[12] H. Rept. No. 1430, 78th Cong., 2d sess., "Activities of Farm Security Administration," p. 6.

[13] See Subcommittee Further Clarifies Views of Congress on Subject of Supervision, ch. X, pp. 246–249.

the title "Agricultural Credit Policy in the U. S.—1945," Professor John D. Black of Harvard University said:

The most important single development in agricultural credit in the last decade has been the combination of technical help in planning for the use of a loan, and in the use of the loan funds subsequently, with the making of the loan. Little of this was in the picture before 1935. Only a few commercial banks went further along this line than occasionally to suggest that a loan would be acceptable if the program for using it were different. The Federal Farm Loan system based its loans on an appraisal of the farm more than on a production program proposed for it. It is true that a small number of commercial banks scattered widely over the country are now beginning to service loans in this same way, or are giving some part of this service. But our agriculture cannot afford to wait for our commercial banking system to develop these services. As a matter of fact, only if public agencies proceed vigorously with such an undertaking, learning not only how to make and service such loans, but more important, how to plan successful farm production programs in all the different areas of the country, and in this way furnishing leadership and competition, will the commercial banks rise to the occasion.

The reader will note that the term "supervision" has not been used in the foregoing paragraph. Not only is the term an inaccurate description of technical aid in making farm production plans and in carrying out these plans, but it has misleading connotations. The term "servicing" will be used instead in this article, although it is in danger of being understood to include nothing more than the handling of collections and the like. Now comes the question: Should this servicing be "self-supporting"? If the banks were to provide it adequately in due time, it would be paid for out of the interest which they collect. But there is a long period ahead when this servicing must be subsidized if it is going to be available to the extent needed. Moreover, there is question as to whether governmental servicing should not always be pushing out to conquer new frontiers, with commercial bank servicing following after as rapidly as the banks learn how to handle it.

No reasonable argument against subsidizing this servicing can be offered. It is the same kind of aid that is given farmers by the agricultural extension service. In fact, it is an unusually effective form of such aid—clearly superior to most forms of extension work—because of the manner in which it ties together a program of action and its financial support. Surely a Government which is subsidizing a general program of agricultural research, adult recreation, farm planning for control of water and wind erosion, and of services to herd improvement associations and the like, can make no good case against helping farmers to plan farm and production programs for the use of credit. The strongest statement can be made in terms of the AAA payments. If it is good national economy to spend a half billion dollars a year subsidizing attempts to shift production, there can be little doubt about the economy of spending as much as a tenth of this amount in helping to plan better farm production programs and helping with their execution. A million dollars spent on a good use of credit supplemented in this way could easily go farther in reconverting the South than ten times this amount spent on benefit payments.

Before proceeding to discuss what the policies and practices have been and are with respect to supervising farm-ownership borrowers, let us first mention certain things strongly condemned by the select committee of the

Congress which have likewise been contrary to the philosophy and policy of those directing the farm-ownership program.

1. There has been no colonization. When plantations have been subdivided in a manner that has resulted in a number of farm-ownership families living side by side they have done so as independent owners of individual farms. No attempt has been made to exercise any control whatsoever over their group or community relationships.

2. Farm-ownership borrowers have not been told what crops to plant and how they must be cultivated. They have been advised on these matters and, as will be explained later, mutual agreements have been reached as to plans of operation.

3. Farm-ownership borrowers have not been told from whom they must purchase or to whom they must sell. They are as free as nonborrowers in these respects.

4. Their bank accounts are not under Government control. Controls are exercised over loan funds to assure their use for the purpose intended, but this is a practice commonly followed by all lenders, private or public.

5. Work stock and equipment are not selected for borrowers. When they seek advice with respect to these matters, as they often do, it is given.

6. Supervision over the personal and family affairs of borrowers has never been authorized or contemplated.

7. Borrowers are required to inventory their property annually and keep records of income and expenses in what are called family record books. Exceptions to the requirement are made if no member of the family can keep such records. Usually someone can, and the advantage of doing so as a matter of good business is generally recognized.

The key to the problem of getting borrowers to follow good farming practices without regimenting them has been found to be in convincing them that it is to their advantage to follow such practice. Once this is accomplished the borrower has no feeling that his rights are abridged or that his will is subordinated to that of the supervisor. The borrower and supervisor merely join in a voluntary effort to increase the borrower's income and improve his circumstances. Figuratively, this has been referred to as giving the borrower a glimpse of "the pot of gold at the end of the rainbow." It must not, of course, be "fool's gold." The plans and methods recommended by the supervisor must have merit. They must meet the test of compensating the borrower for the effort and investment which he puts into the undertaking.

In a letter to Assistant Administrator Stephen C. Hughes, dated November 24, 1947, the Director of the Farm Ownership Division proposed the following phrasing of FHA's policy with respect to supervision:

It is the policy of the Farmers Home Administration that its supervisors shall assist and work with borrowers as well as supply them with needed credit. Together the borrower and the supervisor determine how farming, home management, and money management may be improved, make plans for such improvements, and see that the plans are carried out as nearly as possible. Only those who fully understand this and desire to gain the advantages of working together in this way should seek a loan from the Farmers Home Administration.

If the borrower does not want to work with the supervisor in the manner implied, it is better that he refrain from entering into the lender-borrower relationship with the Farmers Home Administration. This is an issue that had best be faced squarely. Policies involving supervision which do not square with generally accepted concepts of "sane," "sensible," and "practical" would be likely to break down very quickly in actual operation. On the other hand, the Farm Ownership program can be discredited and its potential benefits destroyed by slovenly farming, bad business methods, excessive delinquencies, and a high ratio of failures among borrowers. Supervision must, therefore, be effective as well as sane, sensible, and practical.

This concept of supervision was well expressed by Administrator Dillard B. Lasseter in an informal statement made to State directors in August 1947. He said: "I can tell you very simply what my understanding of supervision is—it means real help rendered in a manner that will get results and that does not give offense. The right kind of borrower working under the right kind of supervision is going to be doing a good job of farming. As far as I am concerned, that is the aim of supervision."

Some additional principles observed in formulating policies related to supervision are these:

1. Initiative, resourcefulness, and self-reliance on the part of the borrower are encouraged. Accordingly, the instruction on farm and home management planning for farm-ownership borrowers provides "the borrower's first responsibility is to go just as far as he can in developing his own farm and home plan . . . the supervisor should never make plans for the borrower or impose plans upon the borrower."

2. Every effort is made to help the borrower progress as quickly as possible to the point that he will not longer require supervision. Emphasis is placed upon a good start. A borrower is given more help during the early years of his loan than he is given later. In fact, once he gets well established on a good basis of operation and his account is in satisfactory position, supervision becomes largely a matter of perfunctory loan servicing.

3. "The best farm organization, the best farm and home management practices, the best marketing practices, and the fullest practical participation in the social and economic life of the community which the family is willing and able to undertake" are stated aims of supervision.[14] Perfection, however, is not expected, nor is any such thing contemplated as policing every act or checking every decision of borrowers. It is taken for granted that, like other folks, borrowers will make some mistakes both of omission and commission and that this is their privilege.

The preceding paragraphs cover need for supervision of farm-ownership loans, legal authority for it, what it is designed to be, what it is designed not to be, and the general philosophy underlying the policies that have been formulated with respect to it. Chapters which follow will reveal the manner in which supervision is accomplished: (*a*) through arriving at an understanding with each applicant before he receives a loan for the pur-

[14] FHA Instruction 438.1, III, B, 2 (October 19, 1948).

chase, enlargement, or development of a farm; (*b*) planning and budgeting the operations of the farm; (*c*) informal meetings between the supervisor and the borrower on the farm and elsewhere; (*d*) analyzing records of annual receipts and expenditures and of changes in inventory; (*e*) comparing progress with other borrowers; (*f*) checking practices followed by borrowers against those recommended by agricultural experiment stations and extension services; and, in general, studying factors which contribute to success or interfere with it.

Loans Are Made Only to Applicants Who Are Unable to Obtain Credit From Usual Sources

A farm real estate loan which typical lenders operating in the farm mortgage lending field will not make is distinctive for the simple reason that it is outside the scope of what is usually done. It has been explained that it is made feasible and practical by certain safeguards with respect to the qualifications of the borrowers, the adequacy of the farms purchased, the reasonableness of the prices paid for them, and the assurances that they will be well farmed and well maintained.

The Bankhead-Jones Farm Tenant Act as originally passed did not specify that loans should be limited to applicants unable to get them from usual sources. The policy of doing so, however, was adopted at the very start and has been adhered to consistently ever since.

A preliminary instruction issued in January 1938 for the guidance of field employees and county committeemen said: "Applicants able to make down payments of as much as 25 percent of the value of the farm would be able to meet the down payment requirements for a land-bank commissioner loan and would be deemed ineligible for a tenant purchase loan." In August of the same year the policy was amplified to read:

> To be eligible for the benefits of title I of the Bankhead-Jones Act, an applicant must . . . be unable to obtain a satisfactory loan for the purchase of a farm from private or other Government sources.

Why was such a policy adopted if the law did not require it? There were two seemingly sufficient reasons. The first was that the problem with which the law was designed to deal involved a group of persons who lacked the collateral usually required as security for farm real-estate loans. If "the economic instability resulting from some present forms of tenancy" were to be corrected and "more secure occupancy of farms and farm homes" were to be promoted, it would have to be done by tackling the problem where it existed. Furthermore, if ample credit had been available to those desiring to climb the agricultural ladder from tenancy to ownership, there would have been no occasion for action by the Federal Government.

Secondly, it was taken for granted that the Government should seek to avoid competition with private business and also that one Government agency should seek to avoid competition with another. That explains the specific proscription against loans which the Federal land banks would make.

Habit may have made its influence felt also in the formulation of the policy under discussion. The earliest rural rehabilitation loans were lim-

ited to persons "eligible for relief." The Resettlement Administration and the Farm Security Administration which succeeded it limited loans and grants to needy persons in the low-income group, and when the Farm Security Administration was assigned responsibility for administering the Bankhead-Jones Farm Tenant Act it required no revision of its basic concepts to apply a similar policy to the new program.

The eligibility limitation has never been significantly questioned. Many applicants have been declared ineligible because their financial statements indicated that they were eligible for private or cooperative loans. During June 1948, 163 applicants for farm ownership loans were referred to other credit sources. There has been no noteworthy complaint because of rejection or referrals. The justice and logic of the policy have been generally accepted. When the Congress amended title I of the Bankhead-Jones Farm Tenant Act in 1946, it confirmed the policy by inserting the following provision:

The Secretary under this Act shall make no loan . . . to any person, unless the applicant represents in writing, and it is administratively determined by the Secretary, after a certification to such effect by the appropriate county committee, that credit sufficient in amount to finance the actual needs of the applicant is not available to him at the rates (but not exceeding the rate of 5 per centum per annum) and terms prevailing in the community in or near which the applicant resides for loans of similar size and character from commercial banks, cooperative lending agencies, or from any other responsible source."

Occasionally, objection has been voiced against the requirement that an applicant must represent in writing that he is unable to obtain needed credit in sufficient amount and at prevailing rates from private or cooperative sources with which to purchase, improve, or enlarge a farm. This has sometimes been called "a pauper's oath" and it has been alleged, particularly by persons speaking for veterans, that it is embarrassing or even humiliating to be obliged to execute such a statement. Employees of the Farmers Home Administration and members of county committees who have first-hand dealing with applicants, including veterans, have not reported much of this kind of sentiment. Most veterans are young men, and certainly no stigma should be attached to the fact that very often they have had neither the time nor the opportunity to accumulate the equities in household furnishings, land, work stock, machinery, and equipment such as would be required by a private lender in making a loan for the purchase and improvement of a farm.

Some nonveterans in some sections of the country may have refrained from applying for farm ownership loans because of an erroneous impression that it is a relief program. They have had a commendable aversion to "being on relief." But a farm ownership loan is very definitely a loan, in fact a well-secured loan. It is in no sense a grant. Nor can it properly be classified as relief. That fact is constantly becoming better understood and it appears that objection to the "written representation," or what is sometimes called "the means test," is more likely to diminish than it is to increase.

Farms Purchased With Farm Ownership Loans Must Be Efficient Family Type Farm-Management Units

Farm ownership loans, except for loans to disabled veterans with pensionable disabilities, cannot be made for the purchase of farms which are smaller in size than an efficient family type farm-management unit. They cannot be made to anyone for the purchase of a farm that is larger in size than an efficient family type farm-management unit. The manner in which an efficient family type farm-management unit is defined is therefore very important. In chapter VII, the provisions of the law related to the matter will be quoted, and FHA's definition of an efficient family type farm-management unit will be presented and discussed.

Other Distinctive Characteristics

There are a number of other respects in which farm ownership loans are distinctive. Since they will be discussed more fully in later chapters, only brief reference will be made to them here. The variable-repayment provision is one of them. To be sure, this feature lost some of its distinctiveness when the act was amended in 1946 necessitating the conversion of a completely variable system into what may more properly be described as the prepayment reserve system.

Federal Land Bank and Commissioner loan borrowers now enjoy the privilege of making prepayments which can be drawn upon to meet regular installments of principal and interest when the borrower so desires. At least one of the large life insurance companies extends this same privilege to farm mortgage borrowers. It has also long been the practice of both cooperative and private lenders to reduce or waive payments of principal and interest when borrowers in good standing find themselves temporarily in financial difficulty. This, however, represents a concession on the part of the lender in favor of the borrower. It is a very different matter when the security instrument itself provides for flexibility in the repayment schedule. The right to vary payments according to ability to pay then becomes contractual and involves no concession by either party to the loan.

In appraising farms, the Farmers Home Administration probably places greater stress upon the earning capacity of the farm and less on its current market value than is customary in the case of lenders whose loans amount to substantially less than the value of the farm. Such lenders rely for the protection of loans primarily upon their ability to dispose of securities for the amount of the unliquidated debt. As previously pointed out, the Farmers Home Administration relies primarily upon the probable success and solvency of the farming operation.

It is the policy of the Farmers Home Administration that the farms of borrowers shall be put in livable and operable condition at the time loans are made. This policy owes its origin to the fact that the purpose of the farm ownership program is to improve the circumstances of borrowers. The typical lender, although he may be interested in and sympathetic with advancing the borrower's welfare, is not primarily concerned with this matter.

A very deeply entrenched tradition, evidenced by the experience of many pioneer farmers, has been that the improvement of the land, building the barn and other buildings come first. The new home comes last, in fact it often happens that the children have grown up and left home and the undertaker has arrived before a new home with even modest conveniences replaces the old one. This will be discussed under the heading of "Improving and Developing Farm Ownership Farms." It has been the experience of the Farmers Home Administration that it is good business strictly from a lender's point of view to provide the farm ownership borrower and his family with a home worth struggling to own.

Chapter VI

THE FARM OWNERSHIP FAMILY

Economists have written much about the factors of production—land, labor, capital, and management—but very little has been written about the administrative problems involved in combining these factors in such a manner as to achieve certain legally defined objectives. Families and farms are undoubtedly the two most important considerations in the situation and there has been much speculation as to which of the two is the more important.

Analyses of factors contributing to the failure of unsuccessful farm-ownership borrowers reveal that sometimes the fault clearly lies with the farmer. On the other hand, the farm is sometimes the limiting factor. Often failure is the result of combination of complicated circumstances, in which health, family relations, weather, prices, pests, diseases, or plain luck are determining elements. Occasionally, it appears that failure could have been averted if the potentialities of the family and the farm had been fully developed. This situation reflects adversely upon the manner in which the theory of supervision has been translated into practice.

Taking the long-range view, veteran employees of the Farmers Home Administration who have made the most loans and have had the closest relationships over the years with the largest number of borrowers, successful and unsuccessful, are not disposed to be dogmatic about the relative importance of the family and the farm in the farm-ownership program. The report of a conference of Regional Farm Ownership chiefs held in Washington in May 1944 contains this statement: "It was the conclusion of the conference group that most of our troubles grow out of difficulties with families rather than family farm selection." In contrast with this view Prof. John D. Black of Harvard University reports ". . . the agricultural economists in 20 States nearly all consider that too many loans had been made in their States on farms that are smaller than economic units." [1] All informed persons are in agreement, however, that both families and farms are important and that constant vigilance and much wisdom and discretion must be exercised if happy unions of the two are to be consummated.

Before proceeding with a discussion of specific standards of eligibility for farm-ownership loans, a few general observations may be made. One of them is that the appraisal of human capacities does not lend itself to a rule-of-thumb approach. After all of the provisions of law have been taken into account and all of the rules have been laid down that can be derived from experience there still remains wide latitude for the exercise of judgment.

[1] Agricultural Credit Policy in the United States, 1945—Journal of Farm Economics, p. 606, August 1945.

This must be applied by competent and informed persons in communities in which the individuals concerned live and are known. And, of course, judgment is not infallible in the appraisal of human capacities even when it is applied by the most competent persons with the most complete information at their disposal.

It is a mistake to assume that each applicant approved for a farm-ownership loan will, because he is supervised, follow consistently the best known practice of farm management, home management, and money management. Yet farm planners often err by assuming that he will do so. As a result, what appeared on paper to be a soundly conceived enterprise fails in practice because it is human to fall considerably short of maximum efficiency whatever the line of endeavor may be. The test, therefore, lies in determining what the families who obtain loans are likely to do with the resources at their command. This in brief is the practical problem with which county committeemen and county supervisors of the Farmers Home Administration must deal.

Eligibility for Farm Ownership Loans Is Defined by Law and Administrative Regulations

Policy making is a centralized function in the Farmers Home Administration. All instructions of a general nature which lay down basic policies and procedures are issued from the Washington office with the approval of the Administrator. The execution of policies, on the other hand, is decentralized. Within the general framework of national policies, judgments are rendered and actions are taken by field employees and county committees.

Division of authority and responsibility is well illustrated by the instruction dealing with eligibility for farm-ownership loans. This instruction established criteria for evaluating qualifications of applicants. Whether they be in Maine, Iowa, Mississippi, California, or elsewhere, they are judged according to its provisions. Employees of the Farmers Home Administration assemble information regarding applicants on standard forms prepared for that purpose. County committees, with the benefit of this information, plus their personal knowledge of the individual involved, execute the essential certifications of eligibility without which no farm-ownership loan can legally be made.

FHA Instruction 411.1 entitled "Evaluating Qualifications of Applicants" is quoted below with minor deletions. It lists the general requirements which must be met by all applicants who are certified to receive loans. It includes provisions for granting preference to veterans.

I. *General*

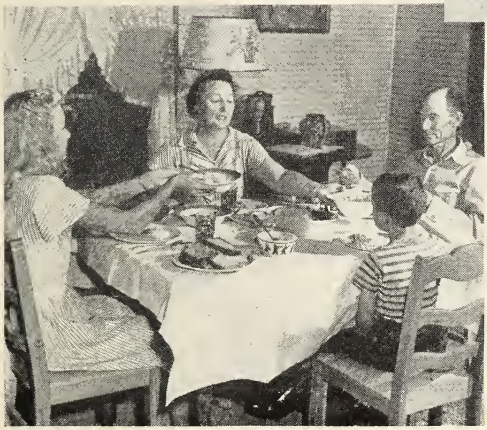
In considering the qualifications of applicants to receive direct and insured Farm Ownership loans, no discrimination shall be made on the basis of descent, race, creed, or political affiliation.

II. *Requirements*

The following requirements shall govern in considering the qualifications of applicants for direct and insured farm-ownership loans. In order to be approved for a farm-ownership loan, each applicant must:

a. Be a citizen of the United States of America.

FIGURE 5.—Upper—The farm-ownership family is the key upon which the whole program is built. To provide real opportunity for educational, social, and religious improvement a family as large as the one (left) must be permanently tied to the land through ownership.



Lower—Children such as the boy (above) can become real citizens of the future when they grow up on owner-operated family-type farms. They live a healthy, wholesome life (left) when the fear of frequent moves is taken away.

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FIGURE 6.—Upper—Legislation requires FHA to give preference to veterans, and the agency has taken this obligation seriously. Over 30,000 veterans have been helped to buy farms of their own. Some, like George Avery (left) of Hope Valley, R. I., have already repaid their farm-purchase loans in full, 30 or more years ahead of schedule.

Lower—Some like William Miller, Kosciusko, Miss., are disabled. Miller, above, is totally blind, and many (14 percent of the national total) are non-whites. Because the agency maintains a strict no-bias-for-color policy many Negroes like Charles M. Jones (right) of Pike County, Ala., now own their own farms.

b. Except for veterans, be engaged presently or have been engaged recently in farming as a means of providing a major portion of the family income.

c. Be a farm tenant, farm laborer, share cropper, veteran, or other individual qualified under paragraph II*b*, above, in order to be considered for a tenant-purchase loan.

d. Be a farm owner, contract purchaser of a farm, or other individual qualified under paragraph II*b*, above, in order to be considered for a farm-enlargement or a farm-development loan.

e. Be willing to cooperate with representatives of the Farmers Home Administration in:

1. Instituting and carrying out proper farming conservation practices and sound farm and home-management plans.
2. Maintaining such records and accounts as required.

f. Possess honesty, integrity, industry, and other qualities evidencing good character.

g. Have shown a proper attitude toward meeting his debt obligations.

h. Have a genuine desire for stability of residence.

i. Be adapted to and interested in operating a family-type farm.

j. Possess the necessary initiative, resourcefulness, and ability to succeed with the operation and management of a family-type farm.

k. Be unable to obtain credit sufficient in amount to finance his actual needs at rates (but not exceeding 5 percent per annum) and terms prevailing in or near his community for loans of similar size and character from responsible sources.

l. Except for disabled veterans, be free from incurable physical disabilities likely to interfere with successful farm and home-management operations and with the repayment of the loan.

m. Have all outstanding judgments against him settled or satisfactory arrangements made for settlement.

n. Have no excessive non-real-estate debts which, together with the farm-ownership loan, cannot be repaid from anticipated farm income.

o. Be 21 years of age, unless legal disability of minority has been removed pursuant to the laws of the State. (This requirement also applies to the applicant's wife.)

III. *Preference*

Preference shall be given to those applicants for direct and insured farm-ownership loans:

a. Who are veterans, in accordance with paragraph V, below.

b. Who are married or who have dependent families. Other things being equal, families with dependent children who will remain in the home for some years to come should be given preference.

c. Who, wherever practicable, are able to make an initial down payment, or who are owners of livestock and farm implements necessary to carry on successful farming operations.

IV. *Limitations*

The following limitations shall be observed in selecting all applicants for direct and insured farm-ownership loans: [2]

[2] Par. *a*, *b*, and *c* under this heading establish safeguards against favoritism in the extension of loans to relatives of FHA employees or county committee members, or to employees or committeemen themselves.

d. An applicant for a farm-enlargement or farm-development loan shall not be approved unless he is engaged primarily in farming. The aim is to make such loans to actual farmers who have been unable to make a satisfactory living because their farms are undersized or underdeveloped.

e. An applicant for a farm-enlargement or a farm-development loan, who has an existing mortgage or deed of trust on the land he owns, should endeavor to obtain funds for enlargement or development from the mortgagee or other responsible source. If such funds are not available in accordance with the provisions of paragraph II *k,* above, the applicant may be considered for a farm-enlargement or a farm-development loan . . .

f. An applicant who has a legal interest in a family-type farm held in estate may be considered for a tenant-purchase loan to enable him to purchase the interest of the other heirs and to satisfy his share of any liens or encumbrances against the farm provided:

1. That no funds are included in the loan for the payment of any equity held by the applicant which is free from encumbrances.

2. That the State director determines in writing before approval of the loan:

a. That the applicant is unlikely to receive an inheritance in a short time either of title to the property or of sufficient funds to make a farm-ownership loan unnecessary, or,

b. That the circumstances of the other heirs are such as to make it impracticable for them to sell the property to the applicant or to advance additional funds that would make a farm-ownership loan unnecessary.

g. An applicant who has a legal interest in a farm held in estate which is less than a family-type farm may be considered for a farm-enlargement loan to enable him to purchase the interest of the other heirs, to satisfy his share of any liens or encumbrances against the farm, and to purchase additional land in accordance with the limitations contained in paragraph IV *g,* above.

h. An applicant for a tenant-purchase loan may be approved if either he or his wife owns, or has a legal interest in, a small tract of land which is of negligible value and cannot be developed into a family-type farm, provided that they agree in writing to dispose of such interest as soon as practicable and apply the proceeds as a payment on the loan.

V. *Veterans*

In addition to the foregoing criteria for evaluating the qualifications of all applicants, the following procedure will be observed in considering the qualifications of veterans who are applicants for direct and insured farm-ownership loans:

a. Preference.—Farm-ownership applicants who are veterans shall be entitled to preference over farm-ownership applicants who are nonveterans. County committees always shall consider the applications of veterans first. The steps involved in selecting applicants and farms up to the point of optioning the farms shall be completed with respect to these applications before completing similar steps with respect to applications of nonveterans.

* * * * * * *

d. Ability, experience, and training.—In determining the likelihood that a veteran will be able to carry out successfully undertakings required of him in connection with a farm-ownership loan, county supervisors, district supervisors, and county committeemen should give careful consideration to his

qualifications from the standpoint of ability and experience, including training as a vocational trainee. Ordinarily, a veteran having no farming experience should not be favorably considered for a farm-ownership loan until he has acquired actual experience in performing the various seasonal operations related to the kind of farming in which he expects to engage. There may be exceptions, however, in very special instances, such as one in which a veteran will be associated with or closely directed by a member of his family, near relative or other person similarly interested in his welfare whose practical experience in farming temporarily will make up for the veteran's lack of experience. Otherwise, when a veteran has had no farming experience or training and evidences a desire to obtain such training, the county supervisor should refer the veteran to the local office of the Veterans' Administration to obtain information regarding available farm-training programs. If he arranges to take such training, the contribution that it may make toward his success may be taken into account in evaluating his qualifications.[3]

Many Are Eligible for Loans Under the Law and the Policies Established

Assuming for the moment that an ample supply of suitable family-type farms were available at prices in line with their earning-capacity values, and that there were no shortage of loan funds, how many "farm tenants, farm laborers, share croppers, and other individuals (including owners of inadequate or under-improved farm units)" can meet the eligibility requirements for farm-ownership loans set forth in the foregoing instruction? If the backlog of present-day eligibles were supplied with loans and farms, would that solve the problem permanently, or would it tend to recur as each generation passes gradually from the scene and is replaced by the endless procession of oncoming humanity? The answers to these questions follow.

Probably well over a million farm families in the United States are eligible for farm-ownership loans, within the farm tenant, farm labor, share-cropper groups and the group of farm owners whose farms need enlargement or development. Taking care of the backlog of present-day eligibles will not solve the problem permanently. Many farm-raised young men and young women who, in the future, desire to carry on in the family tradition as farmers on "the old home place" will need farm-ownership loans while they are getting started because they cannot obtain farm-purchase loans from private or cooperative sources.

It is possible that after the Federal Government has established a safe, sound, and satisfactory pattern for financing the transition of farms from one generation to the next, private lenders may largely take over and provide credit under terms and conditions that will meet the needs in adequate fashion. While the problem is a very old one, facilities and procedures for its solution have not yet been highly perfected or widely adopted. Certainly we will continue to have land, and generation will continue to follow generation. Since this is an endless process, it should be possible for sons to succeed fathers in the ownership of farms under terms which are not too difficult to meet, are fair and equitable to all heirs concerned and provide reasonable safeguards against subdividing farms to the point that over-

[3] Sec. VI of FHA Instruction 411.1 defines "disabled veterans" and outlines the special procedures to be observed in considering their qualifications for farm-ownership loans.

population and impoverishment of land and people result. Herein lies a challenge for constructive statesmanship.

The income and tenure status of families residing upon what the Federal Bureau of the Census classifies as farms is shown by figure 7 on page —.[4]

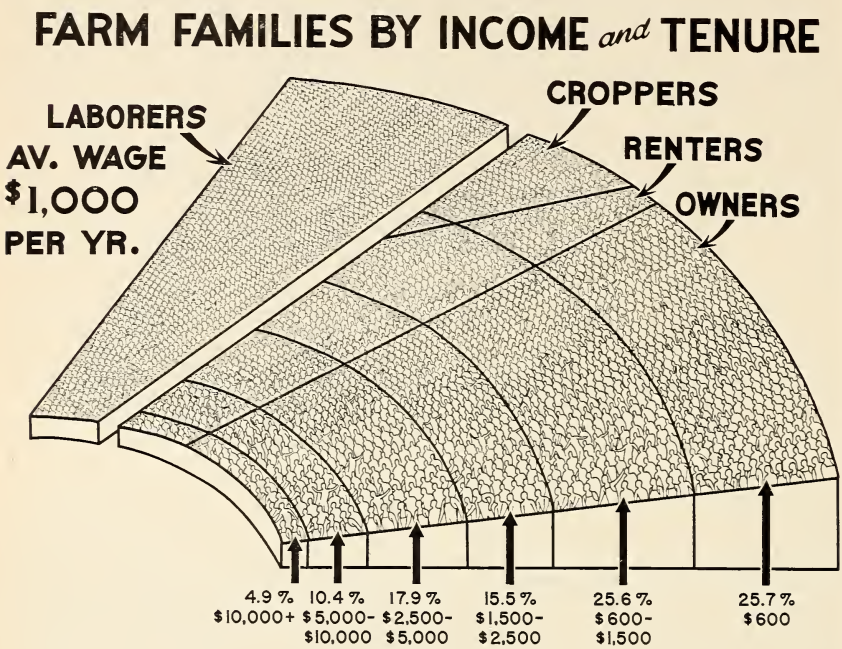

FIGURE 7

It is designed to represent a huge coliseum in which America's 5,859,169 farmers are assembled and seated by income groups. In the bleachers at the left are assembled from 2 to 3 million farm laborers who are neither owners nor renters of farms.

The figure reveals that 4.9 percent of all farmers produced products in 1944 for sale or household consumption valued at more than $10,000. Ten and four-tenths percent had products valued between $5,000 and $10,000. There are very few farm owners or renters in these two groups who cannot obtain adequate farm mortgage credit from private or cooperative sources, and thus a million farm families may be written off as ineligible for farm-ownership loans because they do not need them.

[4] A farm, for census purposes, is all the land on which some agricultural operations are performed by one person, either by his own labor alone or with the assistance of members of his household, or hired employees. The land operated by a partnership is likewise considered a farm. A "farm" may consist of a single tract of land, or a number of separate tracts, and the several tracts may be held under different tenures, as when one tract is owned by the farmer and another tract is rented by him. When a landowner has one or more tenants, renters, croppers, or managers, the land operated by each is considered a farm. Thus, on a plantation the land operated by each cropper, renter, or tenant should be reported as a separate farm, and the land operated by the owner or manager by means of wage hands should likewise be reported as a separate farm.

Approximately a million farm families fall in the group producing and consuming products valued at between $2,500 and $5,000. Between 200,000 and 300,000 of this group are renters. Many of them would prefer to be owners and by no means all who hold this preference are in position to obtain loans with which to purchase farms. Fifty thousand should be a conservative estimate of the number of such renters who are eligible for farm-ownership loans. Seventy-five thousand others in this group are owners who should be eligible for farm-ownership loans to develop or enlarge their farms.

Of the million families in the next lower income group ($1,500 to $2,500), 100,000 renters and 150,000 owners should be eligible.

Slightly more than half of the entire seating capacity of the coliseum is required to accommodate the farmers of the Nation who sold and consumed from their farms less than $1,500 worth of products. Among the roughly 3 million farm families in this lower half are many part-time farmers and rural residents who supplement their small farm incomes with off-farm earnings. They are not farmers at all in the true sense of the word. It would be a great mistake, however, to assume that this is true of all of the 3 million families. Many of them have little or no off-farm income. Their total incomes are meager because the farms they operate are inadequate and impoverished. Of the 2 million owners in the lower gross income half, it is reasonable to assume that well over half their farms need development or enlargement. The number would be larger if it were not for so many part-time farmers and rural residents. Perhaps a sixth of the total, or 330,000, need and could qualify for farm-ownership loans.

In round numbers, a half million of the lower 50 percent are share-croppers. Persons experienced in making farm-ownership loans in the share-cropper area have estimated that a third of the sharecroppers can, with the supervision that will be available, successfully assume the responsibilities of ownership. On the basis of this estimate, about 150,000 share-croppers would be eligible. However, a well-informed Negro county agricultural agent who has served 22 years in a county with around 1,000 Negro share croppers expressed the opinion that 1 in 10 of his constituents might qualify. If his estimate is correct and if the situation in his county were typical, only 50,000 share croppers would be eligible.

On the whole 100,000 may be accepted as a fair estimate of the number of share croppers out of the total of around a half million who can presently or with from 3 to 5 years' supervision as production loan borrowers qualify for farm-ownership loans. They would come mostly from those in the 30- to 45-year-old age group who have demonstrated considerably better than average ability as farmers, who are known to be industrious and reliable and who are eager to improve their circumstances. Some of them would be veterans who have had the benefit of special GI training to fit them for the responsibilities of farm ownership.

There remain a half million or more tenants, excluding share croppers, in the lower income half. A fifth of them, or 100,000, may be eligible.

Consider next the farm laborers. The incomes of the farm laborers assembled in the bleachers to the left are not comparable with those of the

farm owners and farm tenants seated in the main coliseum because no part of the laborer's income is deducted to meet farm operating expenses. This is true also of share croppers.

It is not easy to determine how many persons should be classed as farm laborers because many farm owners and renters and their wives and children work varying numbers of days on farms for wages. Many students work on farms during vacation and then return to their schools. Many industrial workers do some seasonal work on farms. The Bureau of Agricultural Economics has estimated that 3,219,000 persons 14 years old and over in the civilian noninstitutional population at the end of 1945 worked for wages on farms at some time during the year. A little over a half million of these reported 250 days or more farm wage work during 1945, and another quarter million reported 150–249 days.

These represent the regular or year-round farm hands, the remainder being seasonal workers hired for short periods mainly at harvest and cultivating time. The Bureau estimates that the average annual wage income for hired farm workers who worked 12 months, plus prerequisites furnished without charge, was just about $1,000 in 1944, with the prerequisites accounting for about $150. This is the source of the $1,000 figure shown on the chart as the average wage for farm laborers who work a full year.

Out of the half million males who worked 250 days or more at hired farm work in 1945, approximately a third received less than $600 cash; another third received from $600 to $999, whereas the upper third earned between $1,000 and $2,000 in cash wages.

Out of the half million regular year-round farm hands, it is assumed that at least 100,000 of them fall in the class of reliable, steady, and competent workmen whose employers, though regretting to lose their services, would nevertheless recommend them for farm-ownership loans.

Recapitulating, it is estimated that the following numbers, by groups, are eligible for farm-ownership loans: Out of a half million farm laborers, 100,000; out of a half million share croppers, 100,000; out of a million and a half tenants (other than share croppers), 300,000; out of roughly 4,000,000 owners, 558,000 located on undersized or underdeveloped farms and not by choice, either rural residents or part-time farmers. This gives a grand total of 1,058,000 of which roughly half would not presently be owners and would, therefore, be in need of loans to purchase farms. The other half being owners would need enlargement or development loans.

These estimates cannot be substantiated because, in the first place, a million adequate family farms are not presently available. In the second place, funds for making a million loans are not available. In the third place, it would not be practical to develop a staff to administer the making of a million loans within the short space of 5 or 10 years. It is a task that may well consume from a quarter to a third of a century. Meanwhile, the scene will be constantly shifting and young people at the threshold of the life cycle will be replacing their elders who are completing their active careers. A real ground for public concern, however, lies in the fact that many undersized farms will too long remain undersized, many underdeveloped farms will too long remain underdeveloped, many share croppers, tenants, and

laborers with capacity to do so will be deprived of opportunities to climb the ladder which leads to ownership, to greater independence, and to greater stability of family life, community life, and national life.

If it be true that around a million farm families in the United States appear to be in need of and eligible for farm-ownership loans, why have more of them not applied for loans? First, it may be stated that many renters have applied notwithstanding high farm real estate prices and limited loan funds. In fact, the record of applications received tends more to support than refute the estimates. Farm-development loans, which promise to be made in very great volume, were not authorized until 1946, and there is as yet very little general awareness of their availability. The cost of labor and materials has been unfavorable for extensive development activities since the loans were authorized. The need for enlarging farms is very great but owners of undersized units recognize the futility of applying for enlargement loans when no additional land is available for purchase.

Properly Informing Potential Beneficiaries of the Availability of Farm-Ownership Loans Presents an Administrative Problem

There are generally accepted proprieties by which a public agency must be governed in making known to potential beneficiaries the availability of services it is authorized by law to render. For example, it would be improper for the Farmers Home Administration to announce its services in such a manner as to convey the impression that it is "advertising for business." On the other hand, laws are passed and appropriations are made in order that certain benefits may be extended, certain policies carried out, and certain objectives attained. It would be foolish, therefore, to make a state secret of the fact that funds are available for farm-ownership loans. If the secret were strictly kept, no loans would be made.

A review of instructions issued to field employees related to this matter of informing the public as to the availability of loans reveals the introduction, after some years of operation, of warnings against what might be termed improprieties. The instruction currently in force issued in 1947 contains the following statement:

Applications shall not be solicited under any circumstances. Such devices as form letters, advertisement in newspapers, posters, or other notices of any kind requesting persons to make application are strictly prohibited.[5]

This instruction, however, is not limited to stating what should not be done. It outlines what should be done in the following language:

County supervisor will be responsible for informing the public relative to the services available under the farm-ownership program in his territory. The need for acquainting the public with respect to the farm-ownership program and the methods used will depend largely upon the local situation. Some of the methods which may be used in disseminating this information are: [6]

1. Distribution of pamphlets, leaflets, and other written statements furnished by the National or State office to interested persons upon request.
2. Radio programs based on material approved by the State director.

[5] FHA Instruction 411.2 (May 19, 1947).
[6] Ibid.

3. Talks, based on material approved by the State director, to be given before civic, agricultural, business, and other groups.
4. Newspaper releases based on material approved by the State director.
5. Correspondence and conversations with agricultural, business, and other community leaders.
6. Referral of applicants to county committeemen.
7. Referral of applicants to farm-ownership borrowers. Experience has demonstrated that one of the most effective ways of extending information to applicants is to have them talk to farm-ownership borrowers who have been on the program for several years.

As time passed and the program became better known the problem of properly informing potential beneficiaries of services available diminished considerably, but it has not entirely disappeared. The farm tenants, share croppers, and farm laborers most in need of farm-ownership loans are least likely to be informed about them. This is particularly true where several counties are served by a single Farmers Home Administration office. This is sometimes described as spreading the services so thin that it vanishes altogether or as a process of disintegrating through attrition.

Experience Proves That Desire for Ownership Is Deep-Seated in Human Nature

The large number of applications for farm-ownership loans received year after year furnishes convincing evidence of a widespread and deep-seated desire among farm tenants, farm laborers, and share croppers to become farm owners. Table 1 shows the number of active applications on hand in relation to the number of loans made by years over an 11-year period.

TABLE 1.—*Farm-ownership loan applications and initial direct cash farm-ownership loans made from farm-ownership funds by fiscal years, 1938–48, as of June 30, 1948*

Fiscal year	Loan applications for consideration during fiscal year	TP, FE, and FD loans from farm-ownership funds	Applications per loan from farm-ownership funds
1938	38, 060	1, 815	21
1939	109, 912	4, 131	27
1940	138, 131	5, 947	23
1941	146, 966	8, 140	18
1942	175, 028	7, 843	22
1943	110, 113	4, 704	23
1944	73, 538	3, 150	23
1945	63, 146	1, 817	35
1946	85, 351	3, 527	24
1947	113, 551	[1] 5, 640	20
1948	90, 485	[1 2] 1, 904	48
Total or average, all years	[3] 1, 114, 281	[2] 48, 618	24

[1] Includes FD loans.
[2] Excludes 352 insured mortgage loans.
[3] Includes duplications because of carry-overs at end of fiscal years.

During some of the foregoing years loan funds were turned back into the Federal treasury unused. This was not due to any lack of qualified applicants. Rather it was because of a scarcity of farms available at earning-capacity prices or available within loan limits in effect in certain counties during the year that funds were turned back.

"Applicants available for consideration during fiscal year" were increased somewhat by virtue of the policy governing the life of an application. The FHA instruction with respect to "life of application" reads as follows: "Applications for farm-ownership loans received during any fiscal year will remain active during that fiscal year and the subsequent fiscal year unless voluntarily withdrawn by the applicant, preferably in writing, prior to the expiration date."

At first blush, this might appear to be a device for "padding the application list." It is not, however, such a device. A person who files an application in January, February, or March of any given calendar year would naturally feel that it should receive consideration when new loan funds are made available on July 1 of that year. The policy, therefore, is one designed to deal fairly and reasonably with applicants. Applications should not, on the other hand, be continued in the active file indefinitely. The policy in effect serves a twofold purpose. It contributes to good relationships with applicants and maintains a reasonable degree of currency.

The Congress has evidenced an interest in the ratio of applications to loans when considering the amount to be authorized or appropriated annually for farm-ownership loans. While this is undoubtedly a reflection of interest, it is not necessarily a full measure of the interest and desire for loans. In a report submitted by the director of the Farm Ownership Division to the Administrator under date of March 1, 1938, this observation was made:

We have long since learned that the number of applications received in the various States and regions is not an accurate indication of the need for and the interest in tenant-purchase loans. A number of factors contribute to bringing about this situation. . . . In most States, wide publicity was given to the fact that only a very limited number of loans was to be made in each county. This had a tendency to discourage many persons from applying because of the belief that chances for obtaining a loan would be small. In many instances, the tenants desiring to secure a loan refrained from making applications since they were already located on satisfactory farms and were fearful of incurring the displeasure of their landlords. The county supervisors, in some cases, discouraged the filing of applications where there was any doubt about the eligibility of the applicant. This was done in order to cut down the work involved in sorting the eligible applicants.

Experience gained in subsequent years would tend to confirm the foregoing observation. It is also to be expected that an applicant who has filed an application and renewed it once or twice without receiving a loan becomes discouraged and ceases to apply thereafter. The active application file is therefore not indicative of the total number of persons desirous of obtaining farm-ownership loans at any given time. Certainly, it is true that the volume of applications increases as the prospects for obtaining loans

improve. Making a single loan in a county does not stir up much interest, but making 10 or 20 loans in a county within a year arouses latent interest and becomes a signal for action among friends and neighbors of the successful applicants.

Among the three groups mentioned specifically by name in the Bankhead-Jones Farm Tenant Act (farm tenants, farm laborers, and share croppers) farm tenants have evidenced the greatest interest and received the bulk of the loans. Share croppers rank second in this respect whereas farm laborers have submitted very few applications and received fewer than 1 percent of the loans. This may be due in part to the legal provisions that wherever practical, the Secretary shall give preference to persons who are able to make an initial down payment or who are owners of livestock and farm implements necessary successfully to carry on farming operations. Because of the meagerness of his pay and the circumstances of his employment, it is difficult for the farm laborer to meet these conditions. He is therefore at a disadvantage when competing against cash and share renters who have been obliged to accumulate some livestock, tools, and equipment.

This is not a complete explanation because share croppers, whose circumstances are similar, in fact often less favorable than those of farm laborers, have applied for and received loans. Table 2 shows the percentage of active farm-ownership borrowers by their tenure classification at the time of loan approval.

TABLE 2.—*Percentage of active tenant-purchase borrowers (1945) in various tenure groups at acceptance*

Tenure group	United States	Midwest	South	East	West
	Percent	*Percent*	*Percent*	*Percent*	*Percent*
Cash or standing renter	21. 7	17. 2	21. 7	43. 2	36. 1
Share renter	63. 4	80. 5	59. 8	38. 2	48. 4
Share cropper	13. 3	1. 6	17. 1	9. 3	8. 0
Farm laborer	. 7	. 3	. 6	2. 5	4. 0
Other	. 9	. 4	. 8	6. 8	3. 5

Source: Computed from FHA, Release No. 3, Status of the Tenant-Purchase Family in 1945.

There Shall Be no Discrimination on Racial, Religious, or Political Grounds

There has been an earnest and consistent effort to carry out the policy suggested by the above heading. The policy has, of course, been subjected to its greatest test in the case of Negro loans in Southern States. There, State and county committeemen, fully aware of the significance of the problem and quite keenly aware of their responsibility with respect to it, have in the main cooperated helpfully in attempting to carry out a policy of nondiscrimination on racial grounds. The record is not a perfect one. It could, however, have been worse and some informed persons predicted that fewer Negro loans would be made than have been made.

Discrimination can manifest itself in several ways, such as failing to inform groups who should be informed of their eligibility for loans; discouraging persons within these groups from applying for loans; withholding approval of applicants that are worthy; maintaining different standards for farms and for improvements on farms for different racial groups. None of these have manifest themselves in serious form, a fact for which those dealing with the situation locally are entitled to much credit.

There have been some plantation owners who did not want to lose their best share croppers and tenants but there have been many who have derived pleasure from helping their most valued tenants obtain farm-ownership loans. On page 35, reference is made to the consideration given on May 2, 1938, by the Farmers Home Corporation Board to the ratio of white to Negro loans. At that time, it was agreed that "the solution may lie in a definite allocation of funds for Negro loans and a definite allocation of funds for white loans, with the understanding that the funds allocated for Negro loans cannot be used for white loans." This policy was never adopted. In fact there has been an absence of any attempt on the part of the Washington office to force the hand of State and county committees. They have been placed on their honor in this matter and have in general responded in a gratifying manner.

Under date of July 29, 1938, the director of the Farm Ownership Division addressed the following memorandum to the Assistant Administrator of the Farm Security Administration, under the subject of "White and Colored Loans Made under the Bankhead-Jones Farm Tenant Act, 1937–38."

In response to your request, I am handing you herewith the following data relative to loans made during the past year to white and colored farmers in the Southern States under the tenant-purchase program. This information consists of:

1. A table showing number and percentage of white and colored tenants and number and percentage of white and colored tenant-purchase borrowers.
2. Number and percentage of colored loans recommended and made.

The most common basis of recommendations by State committees was the ratio of white to colored tenants in the designated counties. This was used in regions IV and VIII. In region IV, however, an alternative recommendation was made, namely, the ratio of eligible white to colored applicants. The figures in table 1 refer to the ratio of white to colored tenants. In region V, the ratio of white to colored farm operators was used in Alabama and Georgia. The ratio of white to colored farmer owners was used in South Carolina, while the Florida committee recommended no colored loans because of the small number of loans and the small proportion of Negro farmers. In region VI, the Arkansas and Louisiana committees recommended that 25 percent of the available funds be set aside to be used in making adjustments where needed for loans to colored farmers, while the Mississippi committee recommended that loans be made on the basis of white and colored farm population.

As to actual accomplishments, as compared with committee recommendations, the best records were made in regions V and VIII where the colored quotas recommended were realized to the extent of about 80 and 90 percent, respectively. In region IV, the recommended quotas, on the basis of ratio of white to colored tenants in the designated counties, were less than 50

percent realized. A better showing would have been made if the alternative basis had been used, namely, the ratio of eligible white to colored applicants. Complete data on applications by race in region IV apparently are not available; but for counties reported by race, 11.6 percent of all applicants were colored; whereas 14.2 percent of all borrowers are colored. In region VI, loans made to colored farmers were only about one-half of those recommended. It is not clear as to why the funds set aside and presumably held in reserve for colored farmers were not used for that purpose.

The attitude of State committees in the South as to a desirable ratio of white to colored loans was generally constructive as is shown by the fact that the recommendations for colored loans amounted to 30 percent of all loans, whereas, according to the census, colored tenants comprise 34.4 percent of all tenants. In several of the States, however, the number of loans actually made to colored farmers did not come up to committee recommendations, as is shown in table 2. For the South as a whole, colored loans were made approximately in the same ratio as applications were received from colored farmers, or about 19 percent.

The policy of allowing Negroes who own homes, but who rent their farms, to apply should increase the number of eligible colored applicants. Furthermore, the possibility of utilizing the larger tracts of land for colored farmers this year should make it possible to find good land for an increased number of Negro applicants, especially in such areas as the Delta lands in region VI.

TABLE 3.—*Recommendations of State farm security advisory committees, as to percentage of loans to white and colored farmers to be made under Bankhead-Jones Farm Tenant Act, 1937–38*

State	Percentage recommended		Basis of recommendations
	White	Colored	
Kentucky	94.4	5.6	Ratio white and colored tenants in designated counties.
North Carolina	61.3	38.7	Alternative recommendation: Ratio of "eligible white and colored applicants."
Tennessee	59.4	40.6	
Virginia	60.7	39.3	
West Virginia	99.7	.3	
Alabama	64.8	35.2	Ratio white and colored farm operators.
Florida	100.0	0	No colored loans recommended.
Georgia	72.4	27.6	Ratio white and colored farm operators.
South Carolina	70.0	30.0	Ratio white and colored farm owners.
Arkansas	75.0	25.0	25 percent of funds for colored loans.[1]
Louisiana	75.0	25.0	
Mississippi	46.0	54.0	Ratio white and colored farm population.
Oklahoma	88.5	11.5	Ratio white and colored farm tenants in designated counties.
Texas	83.3	16.7	
Delaware and Maryland.	(2)	(2)	

[1] No fixed percentage recommended, but 25 percent of funds to be set aside for adjustments in colored loans as needed.

[2] No colored farmers recommended.

Source: Minutes of meetings of State farm security advisory committees and reports of regional directors.

I believe that further progress will be made during the coming year in securing an equitable distribution of loans between colored and white farmers. I am fully in accord with your policy that our administrative staff, all along the line, should click 100 percent in carrying out its responsibilities in this matter.

Reference is made in the foregoing letter to different methods followed by different State advisory committees in establishing goals for Negro loans. Table 3 shows the percentage of white and colored loans recommended by State committees and the basis upon which each committee arrived at its recommendation.

Table 4 shows the actual number of loans made to white and colored farmers in the Southern States during the years 1937 and 1938. The discrepancies between the goal set for loans and the actual number of loans made to Negroes will be observed by comparing the figures in tables 3 and 4.

TABLE 4.—*Actual numbers of loans made to white and colored farmers in Southern States, Bankhead-Jones Farm Tenant Act, 1937–38*

State	Loans made (number)			Percentage		
	Total	White	Colored	Total	White	Colored
Alabama	180	128	52	100.0	71.1	28.9
Arkansas	123	111	12	100.0	90.2	9.8
Delaware	3	3	0	100.0	100.0	0
Florida	16	16	0	100.0	100.0	0
Georgia	186	139	47	100.0	74.7	25.3
Kentucky	51	50	1	100.0	98.1	1.9
Louisiana	71	65	6	100.0	91.5	8.5
Maryland	6	6	0	100.0	100.0	0
Mississippi	191	142	49	100.0	74.3	25.7
North Carolina	102	77	25	100.0	75.5	24.5
Oklahoma	81	72	9	100.0	88.9	11.5
South Carolina	123	98	25	100.0	79.7	20.3
Tennessee	85	78	7	100.0	91.8	8.2
Texas	150	128	22	100.0	85.3	14.7
Virginia	46	36	10	100.0	78.3	21.7
West Virginia	19	19	0	100.0	100.0	0
Total	1,433	1,168	265	100.0	81.5	18.5

Source: Reports, FC 34.

In a memorandum from the Acting Director of the Farm Ownership Division to the Administrator of the Farmers Home Administration, dated August 21, 1939, the following statement was included:

The problem of finding suitable land for Negroes is a very real one. In many areas the best land available for Negroes is the large plantations. Since the Bankhead-Jones Farm Tenant Act authorizes only loans for the purchase of individual family farms, it has been difficult to develop a procedure for utilizing plantations and the larger farms in the tenant-purchase program. However, this year we will undertake to subdivide a number of tracts into individual family-size units and make individual loans for the

purchase of such units. This should materially help the situation with respect to obtaining productive land for Negroes. To set Negroes up on poor, submarginal land would doom them to failure and defeat the objectives of the program.

The foregoing excerpts from communications and data in tables 1, 2, 3, and 4 relate to the earlier years of the farm-ownership program. Table 5 shows the percent of all tenants who are colored and the percent of tenant-purchase borrowers who are colored in each Southern State.

TABLE 5.—*Percent of all tenants who are colored and percent of tenant-purchase borrowers who are colored in 8 States having more than 30,000 colored tenants*

States	Percent of all tenants who are colored [1]	Percent of tenant-purchase borrowers who are colored [2]
North Carolina	44	17
South Carolina	64	30
Georgia	48	26
Alabama	55	24
Mississippi	75	35
Arkansas	44	16
Louisiana	59	27
Texas	16	7
8 States	49	23

[1] 1945 Census of Agriculture.
[2] Computed from FHA Release No. 3, Status of the Tenant-Purchase Family in 1945.

The Federal Government pursues a policy which has for its purpose the avoidance of racial discrimination. Under that policy no reference to race is permitted on application forms. The assumption back of this policy is that the official passing upon an application, whether it be for employment or for a loan, will be obliged to consider it strictly upon its merits.

Since there is always a personal meeting between the applicant for a farm-ownership loan the local representative of the Farmers Home Administration and the county committee the race of the applicant is always known. The policy, therefore, does not serve its intended purpose in this instance but it does deprive the Farmers Home Administration of the only source of data on the number of applications received from different racial groups. Thus, a policy designed as a safeguard against discrimination operates to deprive administrators of one of the useful means of checking upon discrimination.

Before the Farmers Home Administration discontinued reference to race on its application blanks, tabulations were made on the number of applications by races. Table 6 shows this information for the years 1937–38 for nine Southern States. The problem of a fair distribution of loans has not arisen in any significant way in connection with the less numerous racial groups.

Most of the loans in Hawaii have been made to Americans of Japanese ancestry. They predominate in numbers particularly among the small independent operators not employed on the sugar and pineapple plantations

TABLE 6.—*Applicants for tenant-purchase loans, 1937–38, by color, 9 Southern States*

State	Applicants (number)			Percentage		
	All	White	Negro	All	White	Negro
Alabama	12, 403	9, 345	3, 058	100. 0	75. 3	24. 7
Arkansas	2, 156	1, 778	378	100. 0	82. 5	17. 5
Florida	269	222	47	100. 0	82. 5	17. 5
Georgia	4, 536	3, 773	763	100. 0	83. 2	16. 8
Louisiana	1, 248	870	378	100. 0	69. 7	30. 3
Mississippi	2, 439	1, 966	473	100. 0	80. 6	19. 4
Oklahoma	977	893	84	100. 0	91. 4	8. 6
South Carolina	2, 550	2, 050	500	100. 0	80. 4	19. 6
Texas	2, 845	2, 610	235	100. 0	91. 7	8. 3

and it follows logically that they should be the most numerous applicants and recipients of loans.

Americans of Hawaiian, Philippine, Portuguese, and Chinese ancestry have also received loans. There is a general absence of racial antagonism and jealousy in the Hawaiian Islands, and the white population appears to repose great confidence in the loyalty of citizens of different racial ancestries. In Puerto Rico the absence of racial antagonisms is equally noteworthy. Recipients of loans there are practically all Spanish-speaking Americans.

The Farmers Home Administration and its predecessor organizations have made many operating loans and grants to Spanish-speaking Americans in Southwestern States. The number of farm-ownership loans made to this group has been rather limited largely because those in the most destitute condition have not been ready to assume the responsibilities of ownership of family farms. They have not accumulated the livestock, tools, and equipment with which to carry on farming operations and would be obliged to assume excessive debts if they were to be adequately financed with both operating and farm purchase loans. In general, suitable family farms are not available in communities in which large numbers of Spanish-speaking Americans are congregated.

The situation with respect to American Indians is somewhat complicated. They are, of course, citizens and eligible for farm-ownership loans from that standpoint. However, the great majority of our Indian population, perhaps 75 percent or more, reside within the boundaries of established Indian reservations. Much of the land within the borders of these reservations is tribal land or allotted land to which the occupant does not hold title in fee simple and which he can neither sell nor pledge as security for a loan without the consent of the Secretary of the Interior. Although there is a good deal of privately owned land within the boundaries of several Indian reservations, there is not enough private land, at least in many reservations, to supply the demand in case large numbers of Indians sought to establish themselves as owners of family farms.

Often, therefore, if Indian families residing on reservations were to apply for and receive farm-ownership loans, they would be obliged to move away

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from the reservation and thus largely sever the associations, tribal and other, to which they are accustomed. There has been some tendency in this direction, recently stimulated no doubt by Indian participation in war activities. Many Indians of military age who served in the armed forces and have since availed themselves of the benefits of GI training are seeking employment of one kind or another off the reservation. But it is not thought that many of them have applied for farm-ownership loans.

The number of Indians on reservations who have acquired a type of training and experience which tends to qualify them for the responsibilities of ownership and individual operation and management of farms is perhaps not large.

Still another factor tending to limit the interest among Indians in farm-ownership loans is the fact that Indians on reservations are accustomed to dealing with representatives of the Bureau of Indian Affairs of the Department of Interior. That Bureau through its Indian Extension Service makes chattel and operating loans to Indians and in some instances loans to enlarge and develop farm units. Both the Department of Interior and the Department of Agriculture have sought to avoid overlapping functions.

As a result of all the factors mentioned, interest on the part of Indians in the farm-ownership program has been very limited. Because of the Federal policy previously discussed, data are not compiled by races on applications received or on loans made. It can be stated on the basis of general knowledge, however, that there have been more applications and more loans to persons carrying Indian blood in the State of Oklahoma than elsewhere.

The Acting State FHA Director for Oklahoma has reported as follows on this matter:

> . . . we have made some 65 loans to Indians, all of whom are of three-fourths to one-fourth degree in their Indian blood. Undoubtedly we have made in excess of 100 other farm-ownership loans to borrowers having one-eighth or less Indian blood. In addition, some 20 farm-ownership loans have gone to families in which the wife is recognized as Indian of one-fourth degree blood or more.[7]

Avoidance of discrimination on political or religious grounds has presented no special problem. There is simply no strong tendency for political or religious bias to enter in. County committees are generally indifferent to those considerations. Where one religious faith predominates strongly in a community adherents of another faith might be somewhat less likely to receive favorable consideration partly because they would be less well and favorably known in the community. Political affiliation is least likely of all to be taken into account. Patronage based on partisanship no doubt enters extensively into appointments to public office in this country, but a member of one party stands as good a chance to get a farm-ownership loan as a member of another party.

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[7] Letter from Joe C. Hayes, Acting State Director for Oklahoma to Dillard B. Lasseter, Administrator, September 15, 1948.

An Applicant Should Understand the Benefits and Obligations Involved Before He Obtains a Loan

In many areas of human relations, benefits and obligations are linked inseparably together. They are so linked in home life and community life and in the broader spheres of citizenship in State and Nation. They are so linked when an applicant for a farm-ownership loan becomes a recipient of such a loan. It is highly important, therefore, that each applicant should not only be aware of but also that he should freely and willingly accept the obligations which the receipt of a farm-ownership loan will impose upon him.

Let us inquire in general terms what the obligations are that a farm-ownership borrower should assume. Are they burdensome and objectionable? Do they involve restraints and sacrifices of cherished personal rights and privileges? Fortunately not. They do call, however, for the utilization of talents, the expenditure of effort and disciplines in the management of affairs which are commonly recognized as the price of success in any field of endeavor. Thus, the very acceptance of the obligations becomes a step toward success.

Viewed in this light, the better the obligations are understood, the more eagerly will they be accepted and the more certainly will they be fulfilled. Speaking more specifically, the recipient of a farm-ownership loan is obligated to adopt the best system of farming and to follow the best farm-management, home-management, and money-management practices of which he is capable. It has been explained in an earlier chapter that it is only because he is committed to such an effort and because he is to have the benefit of practical guidance by trained and experienced employees of the Farmers Home Administration that the Government can make a loan to him which private lenders will not make, or insure a loan obtained by him which a private lender would not make if it were not insured. Accepting supervision and guidance until there is evidence that they are no longer needed is therefore one of the obligations to be assumed by farm-ownership borrowers.

This brings us to the very heart of the whole matter of arriving at an understanding with an applicant before he receives a loan. He should know just what supervision involves and whether he desires to enter into a supervisory relationship with the Farmers Home Administration.

Viewed from the lender's standpoint, supervision must be effective. It must represent substantial assurance that good farming practices will be carried out. If it does not the whole concept of supervised credit collapses both in theory and in practice. Viewed from the borrower's standpoint, supervision must be helpful. It must not hinder, restrict, or suppress initiative or be obnoxious or objectionable to self-respecting, self-reliant persons. If supervision did not square with these principles, the whole concept of supervised credit would collapse just as certainly as it would collapse if it afforded no protection to the lender.

The aim of supervision from the standpoint of the Farmers Home Administration is the success of the borrower. The borrower has an unlimited personal interest in this identical objective. There is present, therefore, in the mutual character of the ends sought a sound basis for a satisfactory

working relation. Of course, the borrower must be convinced of this fact; and there are two particularly effective means by which he may be convinced.

One is by the testimony of borrowers who have been supervised. They are likely to tell a prospective borrower what they think of supervision and whether or not they have been benefited by it. It is true, of course, that the art of extending guidance and assistance to others attains its highest expression when the recipient is least conscious that he is being helped. Borrowers may not always realize, therefore, just how much of their success is due to help they have received directly or indirectly from the Farmers Home Administration. They may be depended upon, however, to have a general impression and will reassure inquirers if that impression is favorable and caution them if it is unfavorable.

Another means of convincing a borrower that he will be helped by supervision is to prove it by actually helping him. There is an excellent opportunity to do this before the loan is made. It occurs when supervisor and applicant are developing a plan for the operation of the farm selected by the applicant and when working up estimates of probable income and expenditures of various alternative enterprises. This is an undertaking in which "two heads are better than one." When completed, this—the jointly developed plan of operation—should point the way to a better future for the borrower and his family. When it does they are likely to be aware of the fact. The plan should be a vital thing, a practical means of achieving desirable ends. It should be a blueprint for continuous progress toward farm ownership, conservation of land, improvement and beautification of the farm and home, increased income, and a better standard of living, education of children. These are the reasonable expectations of all farm-ownership borrowers. When the objectives are clear, every reasonable effort toward their attainment becomes an act of self-interest, not one of compulsion or coercion. Often it is possible for the county supervisor to show or tell an applicant of some other borrower's record of progress which the applicant can expect to duplicate in some measure.

There are very human and understandable reasons back of tendencies to evade this matter of a clear understanding with an applicant about supervision before a loan is made. It may be something of a shock to an applicant to learn that he will need to make certain changes in his system and methods of farming. Disregarding future consequences, it is easier at the moment to permit the idea to stand that all a borrower needs to do is to get a loan and continue whatever methods he may have followed in the past. This is probably why there has not been universal compliance with national policy in the matter of preparing prospective borrowers for effective collaboration when they become actual borrowers. Many supervisory problems are directly traceable to lack of proper understanding at the outset.

There is one respect in which the acceptance of a farm-ownership loan may impose a restrictive obligation upon the recipient. A borrower obtains his loan under the provisions of an act, which has for its purpose the attainment of certain goals, and one of these is to enable families who could not otherwise do so to become owners of family farms. The family's actions

should not be in conflict with this objective while their loan is pending. They should not, while borrowers, create on their own farm the sort of tenure problems which the law is designed to correct.

Examples of such action would be renting or buying additional land before they have paid off their debt, having their farming done for them by share croppers or farm laborers. It may not be wise to deny those who want to do these things the right to do them, but it does appear to be wise to refrain from making farm-ownership loans to them. It is wise to make loans to families who will be content to pay for and improve family farms to the point of their maximum capacity and livability and defer expansion until their debts are paid.

Formal instructions issued by the Farmers Home Administration emphasize the importance of all these matters that are related to full and complete preliminary understanding between the Farmers Home Administration and prospective borrowers as indicated by the following quotation:

Reaching proper understanding with applicants.—Reaching a proper understanding with an applicant with respect to the benefits and responsibilities involved in teaming up with the Farmers Home Administration is of paramount importance. The process of arriving at an understanding should begin on the occasion of the first visit between the county supervisor and the applicant. It is essential that the county supervisor gain the confidence of the applicant. To do so, he should evidence a genuine interest in the applicant's problems by listening attentively to his story. He also should explain clearly to the applicant how his needs may be met and how his situation may be improved through the services of the Farmers Home Administration.

This first visit is an opportune time to cite achievements of farm-ownership borrowers whose circumstances were similar to the applicant's. The applicant should have ample time to discuss the matter of a supervised loan with the members of his family. He should not be rushed into a decision. In fact, there are definite psychological advantages in asking an applicant to return for further discussion after he has thought the matter over, if there is doubt about his understanding or his attitude. Group meetings of applicants are an effective method of concluding the proper understanding with applicants. However, if a group meeting is impracticable, the same care should be taken in completing the process with each individual applicant and his wife. In all cases, Form FHA–317, Agreement Between the Undersigned Farm Ownership Borrower and the Farmers Home Administration, will be read and discussed. A copy of this form shall be given to each applicant, so that he and his wife may study and grasp its contents.[8]

The instruction from which the above is quoted lists the following as among the specific points with respect to which an understanding should be reached:

1. There must be acceptable assurance that proper farming conservation practices will be carried out.
2. Sound farm and home plans are required.
3. Farm and home plans are sound only when the borrower and his family, by following them, can live satisfactorily and repay their debts.

[8] FHA Instruction 411.2 (May 19, 1947).

4. The borrower and his wife are expected to cooperate with the county supervisor in developing sound farm and home plans.

5. In order to plan intelligently, it will be necessary for the county supervisor to know what the borrower owns, what he owes, what facilities and equipment he needs, what his income is likely to be, what it is likely to cost to operate the farm, and what living expenses are likely to be.

6. The borrower and his wife are expected to follow the plan as closely as possible, keeping expenditures in reasonable conformance with the plan.

7. When justified, plans may be changed, but the borrower and the county supervisor both must agree to all important changes.

8. It is expected that Form FHA–195, Farm Family Record Book, will be kept accurately and up to date by a member of the borrower's family.

9. If they carry out their obligations and responsibilities in connection with a farm-ownership loan, they should become successful farm owners.

Anyone who has ever bought, sold, or mortgaged real estate on his own account or represented others in doing so knows that many details are involved such as obtaining abstracts of title, boundary surveys, evaluation appraisals, title guarantees, subordinations of claims by previous mortgage holders, execution of notes, mortgages or deeds of trust, recordation of legal documents, payment of commissions and fees, protecting mortgaged properties by insurance, and so forth. It is all somewhat confusing and bewildering to the uninitiated. To most farm-ownership borrowers it is a new experience. They sign their names to legal documents where they are told to sign—without having read the "fine print" much more carefully perhaps than the average individual reads all the terms and conditions on the reverse side of his life-insurance policy. Due care is exercised, of course, to familiarize each borrower with the terms and conditions of important legal documents, but the total process is not one which tends to bring a few fundamental considerations into focus and impress them upon his mind.

Form FHA–317, (fig. 8), Agreement Between Farm-Ownership Borrowers and Farmers Home Administration,[9] highlights those few important things which every farm-ownership borrower should understand and remember. When instructions are followed, no borrower can arrive at the point of paying for his farm and receiving a deed to it without being familiar with and subscribing to the provisions of Form FHA–317. This form is often called "The Borrower's Informal Agreement." That designation is consistent with its intended purpose which is more educational than legal. In fact, it was stated when the form was adopted that it would not be made a basis for legal action. It does involve the good faith and honor of both borrower and lender. Many of its provisions are included in the mortgage or deed of trust and are therefore legally enforceable.

It was recognized at the start that Form FHA–317 had important public relations implications because it presented briefly and concisely, so that all readers might approve or disapprove, the cardinal policies of the farm-ownership program. Its preparation and introduction were characterized by an expenditure of effort and careful consideration similar to that accorded to the development of the farm-ownership variable payment plan. Under

[9] A reproduction of Form FHA–317 as revised April 15, 1947, appears on the following page.

Agreement

BETWEEN THE UNDERSIGNED FARM OWNERSHIP BORROWERS AND THE FARMERS HOME ADMINISTRATION

IN OBTAINING our loan, it is our intention to cooperate fully with the Farmers Home Administration in carrying out the provisions of the Bankhead-Jones Farm Tenant Act. We are satisfied with our farm and with the plans for repairing, improving, and operating it which we have developed with the help of the Farmers Home Administration. We expect to live on and operate the farm ourselves. Until our loan is paid in full, or we are otherwise authorized in writing by the Farmers Home Administration, we agree:

1. To complete all new construction, all repairs, and all land improvements on our farm as promptly as possible, according to our agreement; and not to change or modify the repair, building, and land improvement program in any significant way.

2. To follow, as closely as possible, the farm and home plans developed by us with the help of representatives of the Farmers Home Administration and not to change these plans in important respects after they are agreed to without discussing the desirability of such change with the County Supervisor.

3. To keep the Farmers Home Administration Farm Family Record Book, prepare an annual income return, and develop preliminary farm and home plans to the best of our ability; to bring these to the County Office for study and analysis at the time designated for the annual checkout.

4. To attend the annual business and educational meetings of borrowers held in this county each year following the checkout for the purpose of comparing and discussing the profitableness of different systems and methods of farming and home management.

5. That we will do our best to maintain and improve the soil, prevent erosion, keep all terraces, ditches, fences, and buildings in good repair, and otherwise care for the farm.

6. To pay taxes and insurance premiums before they become delinquent.

7. Not to hire outside labor, except as necessary to carry out provisions of our farm and home plans.

8. Not to rent our farm in whole or in part or operate it under a sharecropper arrangement.

9. Not to rent or operate additional outside lands.

10. Not to purchase additional land or sell any portion of our farm.

11. That in the event of unforeseen developments causing us to desire to sell the farm, to sell it to a buyer approved by the Farmers Home Administration.

12. To refinance our loan by obtaining another loan from a responsible cooperative or private credit source when requested to do so.

13. That should it become desirable for some younger member of our family to take over and carry on the operation and management of the farm, we will try to work out an arrangement that will preserve it as a home for us and maintain it also as a one-family farm.

Date: _____

_____
BORROWER

_____
WIFE OF BORROWER

THE FARMERS HOME ADMINISTRATION accepts this statement of the intentions of this borrower and his wife. Should unforeseen circumstances arise which justify a change in any part of this agreement, the Farmers Home Administration agrees to make such modifications as are consistent with the law under which the loan was made or insured and to further at all times the welfare and interests of the borrower.

Date: _____

_____
FOR THE FARMERS HOME ADMINISTRATION

FORM FHA-317 (REV. 2-13-50) U. S. GOVERNMENT PRINTING OFFICE 16—61109-1

FIGURE 8

the date of August 5, 1940, the following letter was sent to all regional directors transmitting a preliminary draft of the informal agreement:

There was general agreement at the recent tenant-purchase conference (July 8–13, 1940) that there might be considerable advantage in adopting the use of some sort of informal agreement to be signed by tenant-purchase borrowers and their wives, embodying several points of policy that are often

misunderstood or disregarded by borrowers. The idea was to make the form something of a test of good intentions and good faith, rather than a document on which we would go to court. If and when legal action becomes necessary to secure compliance with any policy, such legal action will be based upon covenants contained in such documents as the loan agreement, the note, the mortgage, etc.

There is attached a tentative draft of an agreement drawn in furtherance of the conference suggestions. Please look it over carefully and give us the benefit of your reactions and suggestions. What the agreement really does is to make perfectly clear to a borrower what it is expected of those who obtain loans. Those who have other purposes and intentions will not want to sign the agreement. It will therefore serve a purpose in helping to clarify understanding in advance. The document could be presented at open meetings of borrowers. Finally, however, it should be one thing that is read to or by a borrower and his wife and signed by them with the full knowledge of what it contains.

As the form is drawn it contemplates signature before a notary. The idea is that the borrower and his wife would make a sworn statement of intentions. Would you favor notarizing the statement or not? This statement might be gotten up in certificate form so that it would have more of the appearance of a diploma or certificate of some sort than of a regular-type form. Have the proper points been covered and have they been covered in the proper manner?

The field reactions to the preliminary draft of the informal agreement were favorable. A revised draft incorporating suggested changes, including the elimination of provisions for verification of the agreement by a notary public, was approved by the Administrator on November 12, 1940. It was printed and sent to the field with instructions to adopt it only in States in which it was approved by State advisory committees.

Experience gained in the use of Form FSA–317 is recorded in the proceedings of a conference of farm-ownership chiefs held in Washington, May 19–24, 1944, as follows:

Mr. Maris then focused the attention of the conference group on the FSA–317 agreement form which was developed about 3½ years ago to assist the borrower in understanding just what was involved in a loan under our program. When asked, "Is the agreement fulfilling the purpose intended?" the group responded unanimously in the affirmative.

A few of the comments follow:

Julian Brown (region V).—I believe it is very helpful in understanding our program.

T. B. Fatherree (region VI).—Our county committees use the 317 agreement religiously in putting the program before applicants and the public.

C. Carter Chase (region IV).—It is the best basis for common understanding of the intents and purposes of the program.

W. F. Kauffman (region I).—The greatest value this 317 agreement has is that it eliminates the problem cases at the start. I don't feel that our borrowers understand it uniformly by any means but increasing emphasis is being placed on their thoroughly understanding it.

James H. Dance (region II).—It is absolutely the best safeguard against subsequent misunderstanding.

Frank Van Voorhees (county FSA supervisor, region II).—The 317 agreement presents to the applicant a brief statement of the restrictions

under which he will operate once he becomes a farm-ownership borrower. It is only fair that he understand our policies before he actually becomes a part of the program.

B. W. Lodwick (region III).—I believe that the 317 agreement is a much simpler way of stating the basic requirements of the act, loan agreement, note, and mortgage. The families, through reading the agreement obtain a clearer understanding of those requirements.

The Administrator—Frank Hancock.—It seems both fair and practical and is entirely consistent with the proper administration of title I of the Bankhead-Jones Farm Tenant Act . . .

"Many Are Called But Few Are Chosen"—the Unsuccessful Applicant Wants to Know Why He Fails to Receive a Loan

Filing an application for a farm-ownership loan is an event of extraordinary importance in the life of the person who files it. Each year the destinies of thousands of farm families are involved in the actions taken on their applications for farm-ownership loans. Naturally, each applicant wants to know as quickly and as definitely as possible whether or not he is to receive a loan. Frankness and definiteness are helpful and appreciated; stalling and equivocation prolong the period of uncertainty, interfere with future planning and are resented.

In the light of these generally recognized principles, it would appear that there should be no great difficulty in formulating a policy for the guidance of field employees in the matter of negotiations with applicants. But the matter is not so simple as it might at first appear to be. When certain applications are approved and others are retained in the active file for further consideration, those who are kept waiting want to know why others have been approved ahead of them. General explanations can be readily given, such for example as "The county committee had before it a large number of applications for consideration; funds were available for only a few loans. They approve those applicants who appeared to be best qualified." But generalizations such as this often fail to satisfy the inquirer. Perhaps no other explanation can be made, however.

The choices between applicants are often very close, and the reasons for approving one and deferring another rest on small and intangible differences. However, among the many who apply there are naturally some who are placed in the reserve file without much prospect that they will ever be approved. It might appear that in such cases the applicant should be told that his application has no prospects of approval. This has not been done in any formal manner except, of course, in cases of ineligibility on legal grounds. If an applicant is not legally eligible, he is forthwith so advised and told the reason why. Aside from such a case, *the Farmers Home Administration approves applications; it does not disapprove applications.* An unapproved application is active until it becomes inactive under the time limit established.

Let us pursue further the reasons for the policy of withholding information from applicants (other than general information of the kind previously indicated) as to why their applications have not been approved while others have. Consider a few of the reasons which a committee may have but which would arouse the indignation of applicants if they were told. First,

there are a few applicants among the many whose reputations for honesty are not good. Secondly, there are a few applicants among the many whose debt-paying records are bad. Third, there are a few applicants who have the reputation for being rather shiftless in their farming methods. There are wives of a few applicants who are known to be quite deficient as housekeepers.

Neither employees of the Farmers Home Administration nor county committeemen have any right to be moral guardians of the people. The Congress, however, saw fit to write into the initial Bankhead-Jones Farm Tenant Act the words "character, ability, and experience" and provided that each applicant should be judged by these standards. When the act was revised after 9 years, the word "industry" was added to the other three. These four words are, in fact, about the only criteria which the Congress offered to county committeemen, other than to define eligibility in terms of citizenship and a few matters not involving character. During the first 2 or 3 years of operation, the problem of informing applicants with respect to their prospects was met very satisfactorily by merely advising each unsuccessful applicant that loan funds were exhausted. Obviously, such an explanation could not be given over and over again to applicants who reapplied after new appropriations were made.

A monthly report of the Farm Ownership Division for the period January 1 to July 31, 1941, contains the following heading, "Straightening Out the Statistical Tangle with Reference to Applications and Modifying Policy with Respect to Notifying Applicants of Committee Action." Under the foregoing heading, the following statement appears:

A policy that worked all right for a year or two with respect to handling applications for TP loans began to break down badly as time went on. For example, it was appropriate to tell a borrower once that it had been impossible to approve his loan because the number of applications exceeded the funds available, but the receipt of three or four such letters became annoying. Furthermore, a decision had to be reached as to how long an application should be considered active. Other factors entered into the need for a revision of policy. A good many indiscretions had been committed by supervisors in telling applicants that they "were too old to receive a TP loan." Some recipients of such letters wrote to their Congressmen; their Congressmen wrote to the Farm Security Administration, and the Farm Security Administration advised the Congressmen that there was no fixed age limit. Thus a circuit was completed that reflected no credit upon the Farm Security Administration. The new policy designed to meet these various problems is incorporated in FSA Instruction 616.1, revised June 5, 1941. Under this policy borrowers are no longer notified of rejection of applications.

Their applications are acknowledged and they are advised that they will be informed if and when favorable action is taken. An application received one year is regarded as active during the balance of that year and the entire succeeding year. Thereafter, it must be renewed and brought up to date to receive further consideration.

The instructions referred to in the above report provide that "once each week the RR supervisor shall send to all persons who made application during the week, a form letter, advising them of the period during which

their application will be considered and when reapplication will be necessary. This form letter shall be mimeographed and distributed to county officers by regional (now State) offices."

The letter now in use which has been essentially unchanged since 1941, reads as follows:

This is with reference to your application for a farm-ownership loan.

A county committee of three local farmers is responsible for determining those applicants to whom loans can be extended under the farm-ownership program.

Your application will receive the careful attention of the county committee, and you will be notified within _____ days if it seems likely that a loan can be made to you. If it is impossible to extend you a loan before June 30, 19__, and if you wish to be considered after that date, you must reapply.

Any important changes in the information in your application should be reported to this office in order that the latest information may be presented to the county committee.

The instruction also provided "at the end of each year, a form letter shall be addressed to those desirable and eligible applicants whose applications will expire at the close of the fiscal year." This letter also has remained practically unchanged; as now used, it reads:

The application which you filed for a farm-ownership loan in 19— has now expired. If you desire that the county committee give further consideration to your application, it will be necessary for you to fill out the front side of the enclosed application and return it to this office. In filling out this new application, please give us up-to-date information with respect to your situation, in order that we will know of any changes in your circumstances since your last application was filed.

The policy adopted in 1941 has stood up very well under the test of time. The farm-ownership program has occasionally been criticized on the floor of Congress and elsewhere on the ground that it builds up hopes in the hearts of large numbers of people which are destined, because of the limited number of loans that can be made, to be rather cruelly shattered. Doubtless, many applicants have suffered disappointments. It is very doubtful, however, if potential beneficiaries would vote in secret ballot to eliminate loans for the reason that "many are called and few are chosen." It is probable that they would vote to retain the opportunities even though for the time being they may be quite limited in number. They would probably entertain the hope that as the years go by loan funds will be increased and the odds against obtaining loans will not be so great.

The Farmers Home Administration would be happy if it were practical to go beyond the point of advising applicants when their loans are viewed with favor and tell them more explicitly and definitely when the prospects for loans are remote and the reasons therefor. When applicants call at the office of county supervisors, as they often do, they are given verbally all of the information that can appropriately be given. As a result, the applicant usually knows pretty definitely where he stands and what his prospects are. The policy of stating in writing the specific reasons for approving certain applicants over others has been found by experience not to work out satisfactorily and to be ill advised.

Chapter VII

FARM OWNERSHIP FARMS

Farm-Ownership Farms Must Be Efficient Family-Type Farm-Management Units

Legal requirements.—The Bankhead-Jones Farm Tenant Act provides:

1. That, no loans shall be made, or mortgage insured, for the acquisition, improvement, or enlargement of any farm unless it is of such size and type as the Secretary determines to be sufficient to constitute an efficient family-type farm-management unit and to enable a diligent farm family to carry on successful farming of a type which the Secretary deems can be carried on successfully in the locality in which the farm is situated;

2. That loans may be made to veterans, or mortgages insured for veterans, . . . who have pensionable disabilities, to enable such veterans to acquire, enlarge, repair, or improve farm units of sufficient size to meet the farming capabilities of such veterans and afford them income which, together with their pensions, will enable them to meet living and operating expenses and the amounts due on their loans;

3. That, loans may not be made for the acquisition or enlargement of farms which have a value, as acquired, enlarged, or improved, in excess of the average value of efficient family-type farm-management units . . .

Some of the provisions quoted above from the Bankhead-Jones Farm Tenant Act as amended in 1946 were not contained in the act that passed in 1937. The authorization to make loans to disabled veterans to purchase farms that are less than efficient family-type farm-management units is new. So are the authorizations for "improvement" and "enlargement" and for "insuring mortgages." These last-named amendments affect the kind and number of loans that can be made but they do not change the character of farms that result from making or insuring loans.

The original act authorized loans to enable eligible persons, "to acquire farms." The modifying adjectives, "family-size" were not included. The original act called for "efficient farm-management units." The modifying adjectives "family-type" were omitted. The intent of the act with respect to what is to constitute farm-ownership farms is sharpened somewhat by these slight changes but, except for the amendment related to veterans, it is not changed by them.

It is clear that farm-ownership farms cannot legally, except in the cases of farms purchased by disabled veterans, be less than efficient family-type farm-management units. It is also clear that under no circumstances can they exceed in value the average value of efficient family-type farm-management units in the parish, county, or locality in which they are located. But this does not answer the question: What is an efficient farm-management unit or an efficient family-type farm-management unit?

In any given locality different persons would answer that question differently. When all of the type of farming areas in all of the States and Territories of the United States are included in the area in which loans are to be made the variations in the answers would be greatly increased over those given in a single locality. Obviously, it was necessary before the law was amended to define an efficient farm-management unit and after the law was amended it was necessary to define an efficient family-type farm-management unit. Such farm units are presumed to include the land, buildings, fences, water supply and other improvement items generally considered as a part of the real estate; but not to include livestock, tools, and farm equipment.

Definitions of family farms.—From the standpoint of the reader and still more from the standpoint of the makers and receivers of farm-ownership loans, it would simplify matters very greatly if an efficient family-type farm-management unit could be defined in some such brief and clear-cut fashion as, for example "farms not smaller than 80 or larger than 160 acres" or farms falling within some stated price range such as $6,000 to $12,000.

Unfortunately, such simple definitions will not suffice. Neither acres nor price alone can tell the whole story. Eighty acres of rich land may be more than a family needs for a truck farm. One hundred and sixty acres of semiarid land may be less than a family needs for a stock ranch, wheat ranch, or general farm. During the 10 years that the farm-ownership program has been in operation the dollar has lost about half of its purchasing power. A week's supply of groceries, a family wardrobe, an automobile, a city residence or a farm costs about twice as much now as they did a decade ago. One must know more about a farm, therefore, than the price paid for it to know whether or not it is an efficient family-type farm-management unit. He must know whether it provides an outlet for the labor supply available in a farm family of average size and whether, if properly farmed and managed, it will support an average family on a plane in keeping with accepted standards of living.

The first definition of a family farm was issued by the Farm Security Administration in January 1938. It read as follows: "Such a farm should not be larger than can be handled by the farmer's own labor and that of his family, with the possible exception of brief periods during harvest. The farm should provide as much remunerative work as possible and should yield sufficient income to provide for the family on a satisfactory basis to enable the borrower to pay off the loan." It soon became apparent that the foregoing definition required amendments in certain respects. It needed to be made clear that it was the labor supply available in a farm family of *average size* that was to be the guide. Also it needed to be clear that peak labor requirement periods might occur at planting time, cotton chopping time, or some other time; and it was evident that something needed to be said about families with no children or very young children or children who had grown up, married, and left home. So, changes were made in the definition from time to time to clear up all these points. The current definition, issued June 9, 1950, reads as follows:

An efficient family-type farm-management unit is a farm which furnishes maximum, productive employment for an average farm family assuming justifiable use of labor saving equipment on the farm and in the home and operation of the farm on a sustained or increasing yield basis. It is a farm which an average farm family can operate successfully without employing outside labor, except during seasonal peak-load periods. Such a farm must have the capacity to yield income on the basis of long-time prices which will maintain an average farm family according to acceptable living standards, pay annual operating expenses, pay for and maintain necessary livestock and farm and home equipment and pay off the loan. In individual cases, allowance may be made with respect to employing outside labor while children are too young to be of much assistance or after they have grown up and left home. A farm on which a tenant family will be expected to reside and supplement the labor of the owner and his family, or on which an average family would require hired help a considerable part of the time, is not an efficient family-type farm-management unit and will not be approved. Nonfarm income will not be considered in determining whether a farm, as finally developed, will be an efficient family-type farm-management unit.

Since the Bankhead-Jones Farm Tenant Act provides that all farm-ownership farms except those of disabled veterans shall be efficient family-type farm-management units, the question arises as to whether the expressions "farm-ownership farms" and "family-type farms" means exactly the same thing. The answer is that they are not identical in meaning and cannot be under the law as it now stands. This is because the law establishes an upper limit on the price to be paid for a farm-ownership farm, which is arrived at by averaging the value of efficient family-type farm-management units in a county, parish, or locality. It follows, therefore, that there must be some family-type farms in which the capital investments are greater than farm-ownership borrowers are permitted to make. Even if this were not made a mathematical necessity by virtue of legislation, it is probable that many agricultural economists and farm-management specialists in land-grant colleges, the United States Department of Agriculture, and elsewhere would insist that farms may still be within the range of family-type farms even though it takes more labor to operate them than can be supplied by an average farm family plus some supplemental hired labor at peak periods of planting, harvesting, or tending.

This was shown when, in May 1948, representatives of a number of Protestant denominations assisted by technical specialists from the Department of Agriculture and land-grant colleges, meeting in Evanston, Ill., and having before them numerous definitions of family farms adopted the following definition:

The family farm which it is desirable to promote and to perpetuate is one:

1. On which emphasis is placed on farming as a way of life as well as on its economic returns.
2. On which the management is vested primarily in the family that lives on and operates the farm.
3. On which most of the labor is contributed by the family.

4. On which there is opportunity for full use of the skills and abilities of at least one and up to two or three adult men.

5. Which will provide for full and efficient use of all of the land, labor, and capital invested in the family farm.

6. Which, from the total farm and family enterprise will make possible for all people on the farm adequate: (*a*) Diet, clothing, and housing; (*b*) health facilities; (*c*) educational opportunity for children and adults; (*d*) recreational and social facilities; (*e*) religious opportunities and activities; and (*f*) security for old age.

7. Which, in exchange for things purchased, will provide food, fibers, and other products for domestic consumption and for export.

8. Which will fully conserve and restore the physical resources of the farm, including soil, forest, and water, as well as farm equipment.

9. Which will develop the human resources, particularly the operator's family, but also the other families that work directly on the farm.

It will be noted that the above definition uses the expression, "one on which there is opportunity for full use of the skills and abilities of at least one and up to two or three adult men." The "average" farm family, with the husband working full time, the children in school part of the year and the wife doing some outdoor work, supplies labor equivalent to that of from one and one-half to two able-bodied adult men. The above definition would not rule out of the family farm category a farm on which there is a year-round hired hand in addition to the family workers. Doubtless many would agree that such a farm is a family farm. The Farmers Home Administration definition, however, does not contemplate the employment of a full-time, year-round hired man in addition to the labor available within an average farm family.

It is apparent, therefore, that on the basis of some definitions, the Farmers Home Administration definition of an efficient family-type farm-management unit is one which does not encompass all family-type farms. Farm-ownership farms are confined in general to a medium category of family farms but still one made up of farms large enough to utilize efficiently the labor supply of an average-sized farm family.

One point should be emphasized with respect to the Farmers Home Administration definition of an efficient economic farm-management unit. It is not an academic definition—it is one that sets up standards for the guidance of some 9 thousand county committeemen and for a lesser number of employees of the Farmers Home Administration who approve farms selected by applicants and who participate in the approval of loans. It is a definition which determines the magnitude of the farming operation of thousands of farm-ownership borrowers. Farms purchased in conformance with the terms of the definition are subjected to a very practical test. Their owners must succeed in making a living and in repaying their debts. The public is privileged to observe the general pattern of farms established under the definition and to render a favorable or an unfavorable verdict with respect to that pattern.

Interpretations and elaborations.—In order to achieve a common understanding among thousands of county committeemen and FHA employees throughout the United States, it has been necessary to interpret the pro-

visions of the law and verbally to explain and amplify the meaning of the written definition contained in FHA instructions. In speaking to regional chiefs of farm-ownership divisions assembled in Washington in June 1939, the author as Director of the Farm Ownership Division said:

It has become our responsibility to translate the family-size farm concept into something definite and concrete. With the aid of our State committees and county committees we are doing just that. There is not universal approval of the manner in which it is being done. The farms which we are buying are ranging in cost between $3,000 and $12,000. The average was around $5,000 the first year and it will probably be around $5,500 this year. There are many who think this is too much to pay for a farm, that the investment should be much smaller and the number of units much larger. On the other hand, there are those who contend that we are not paying enough to secure economic units, that one of the greatest handicaps under which farmers have operated in the past has been that of undersized units and under-capitalization.

In the face of these two conflicting points of view, we have been guided by the judgment of our county committees and our State committees . . . a person who buys a farm buys two things, a place to live and a place to make a living . . . you can search the economic system in vain for any business inside or outside of agriculture where an outlay of less than $5,000 on an average will buy both a home and a business establishment in which a living can be made compatible with American standards. . . . Some of the State (FSA) committees (have) . . . definitely ruled out the one-mule farm as an economic unit in the Cotton Belt. . . .

In some of our over-populated areas adhering to the concept of the family-size farm as an economic unit will mean combining units and increasing the size of individual farms. In some of the richer agricultural areas prevailing units can be decreased in size. It is not consistent to contend that it requires 160 acres of the best land in the richest agricultural States for a family-size unit, when in other communities in those same States farmers are operating successfully on 80 acres of land devoted to a similar type of farming.

Perhaps in our procedures as they are now written we have over-emphasized restricting lending activities to the better lands in the better communities. We can be too selective in this respect. Tenants are farming lands of all kinds and character, and they are going to continue to do so. Are we going to so restrict the operation of a national law that the tenant-purchase program will be only for those who can acquire the best soil types in the best communities? I do not think that we should, but I do believe that we should stick steadfastly to the proposition of purchasing only farms on which borrowers are likely to succeed. We should also coordinate our program to that of other agencies that are engaged in land-use planning studies. We should stay out of territories that are designated for retirement from agriculture. However, in areas that are now farmed and that are not designated for retirement from farming we should not hesitate to make loans so long as we make them for the purchase of farms that are economic family-size units under the prevailing conditions, and so long as our borrowers obtain them at prices consistent with their earning capacity. In a territory where units are now too small and it is necessary to enlarge them, the price of the larger units may be prohibitive when judged from an earning capacity standpoint. In that case the unreasonable price would prevent making loans, not the fact that the soil is of low quality, or that the communities lack some desirable features.

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Although the agencies administering the Bankhead-Jones Farm Tenant Act have always emphasized the importance of production for home use, the regulations issued have never required that farm-ownership farms be diversified farms. Farms devoted to specialized farming have not been excluded. Notwithstanding this fact it appeared to those directing the program that there was a tendency on the part of some field employees to adhere too rigidly to a certain sterotyped pattern of farm. This prompted the following remarks by the Director of the Farm Ownership Division at an "Annual FSA Planning and Policy Conference" held in Washington, D. C., in June 1946:

It has been too generally taken for granted that diversification is a specific for the ills of agriculture which even an unskilled farm doctor can administer. It is my firm conviction that diversification is not a specific and that Farm Security has erred in the too general assumption that it is. For the sake of illustration, I would like to relate a story that Mr. L. H. Hauter, assistant director of this division, told the other day. It was about a man (not in our organization) who was in the business of making farm-purchase loans. Diversification was one of the cardinal points of his lending policy. He stressed it on every suitable occasion but after years of expounding diversification, he finally made a statement to this effect: "We have talked diversification, diversification, diversification—meanwhile, farmers continue to specialize, specialize, specialize. Perhaps the thing that we should do is reexamine our loaning policy as it relates to specialization and merely insist that it be sound specialization."

. . . too blind an adherence to antispecialization in agriculture is shutting us out of too many situations in which the success ratio is well above par. I propose that we modify (true up) our objective and that in addition to our present pattern of family-type farms we add safe and sound specialization. Very often security of specialized farming will be enhanced by supplementing the major enterprises with minor enterprises. More often it will be true than not true that production for home use will add to security.

I know very well that there is danger in proclaiming the idea of sound specialization because it may result in a relaxation of effort toward production for home living when we need production for home use. But if we are realists our rules cannot be simple or easy of application. The average value of the food and fuel produced on 31,722 tenant-purchase farms in 1944 was $500. That is enough to make a good deal of difference when there is a crop failure or a price slump. But still and yet, there will be conditions under which that amount of home production is purchased at too great a price in terms of relative values.

Numbers, kinds, sizes, and costs of farm-ownership farms.—Under the provisions of the Bankhead-Jones Farm Tenant Act as they have been interpreted and the definitions and regulations as they have been issued and explained more than 50,000 farms have been purchased by farm-ownership borrowers. They include small farms in Puerto Rico and Hawaii devoted to the production of sugarcane, pineapples, coffee, and other tropical fruits and vegetables. They include irrigated and nonirrigated farms; large stock and wheat ranches in the Rocky Mountain States; dairy farms in the Lake States, the Northeastern, far Western and Southern States; general farms in the Corn Belt and elsewhere; cotton and tobacco farms in

Southern States. Generally speaking, these farms conform to prevailing patterns in their respective geographic regions of the country. There are also farms devoted to specialized enterprises such as fruit, vegetables, and poultry.

The common denominator of farm-ownership farms is not acres, or enterprises. It is the outlet they provide for the productive effort of average-size farm families and the income which they provide for the support of such families. In this respect they bear the unmistakable imprint of a general pattern, evidencing the influence of enabling legislation and of administrative policies.

But the pattern is general. It is not rigid or inelastic. The standard of living which farm ownership farms support is somewhat higher where prevailing standards are high and somewhat lower where prevailing standards are low. If this were not so the circumstances of those who receive the benefits of a publicly supported program and those who do not would arouse public disapproval. It is not practical to aim at midwestern living standards for a Puerto Rican family or Puerto Rican living standards for a midwestern family. It is, however, entirely practical to improve the circumstances of Puerto Rican families and at the same time uphold the standards which predominate in our better farming regions.

Figures on page 124, show the frequency with which the farm ownership farms purchased through December 31, 1947, fall into different size groups and different price groups. The size groups including 80-, 120-, and 160-acre farms exceed all others.

Since the amount of money invested in farms by borrowers themselves has been inconsequential, the amount of the loan is practically identical with the investment in the farm. The number of loans falling within the $4,000 to $5,000 "size of loan" group is greater than the number in any other single group.

Figure 11 shows the average cash farm income and operating expenses, by size of loan, for the United States, through 1947. It indicates that generally speaking one tends to get about what he pays for in farms as in other things. Rarely would a suit of clothes costing $30 be expected to be as durable and serviceable as one costing $60 on the same market. A farm costing $6,000 is not likely to be as productive as one costing $12,000, provided both were purchased under comparable conditions with respect to prices received for things sold and prices paid for things bought.

There is a popular impression, difficult to account for, that in some strange way farms are exempt from the influence of this economic law. The experience of the Farmers Home Administration has tended very consistently to disclose the fallacy of this impression. Year after year the farms representing the smaller capital investment have in general yielded the smaller gross cash incomes and the smaller net cash incomes after deducting farm-operating expenses. As the capital investment has stepped from one size of loan category to the next higher category, the gross cash income and net cash income have stepped up also.

On the basis of this experience it might be inferred that the Farmers Home Administration could enhance the prospects of success on the part of

DISTRIBUTION OF TENANT PURCHASE FARMS BY ACRES IN FARM, 1947

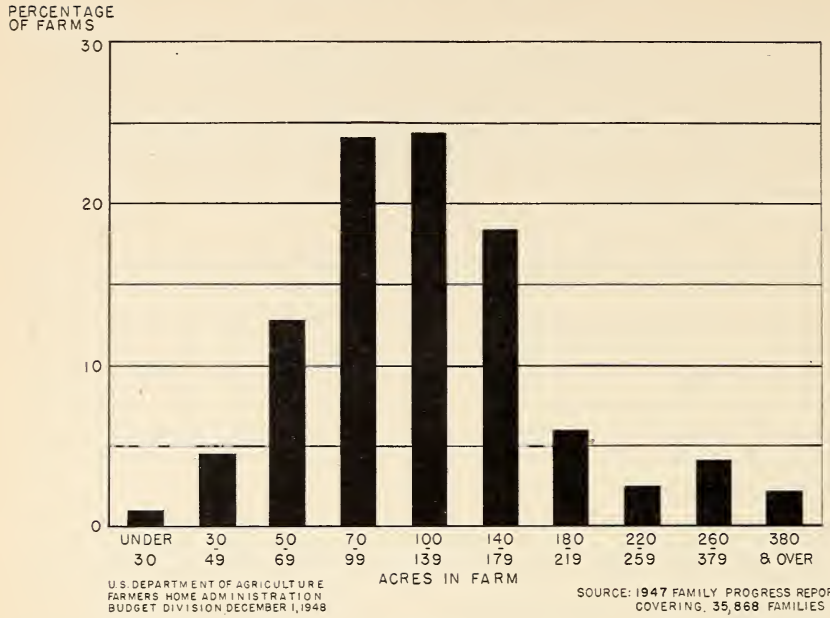

FIGURE 9

PERCENTAGE DISTRIBUTION OF TENANT PURCHASE LOANS, BY SIZE OF LOAN, AS OF DECEMBER 31, 1947

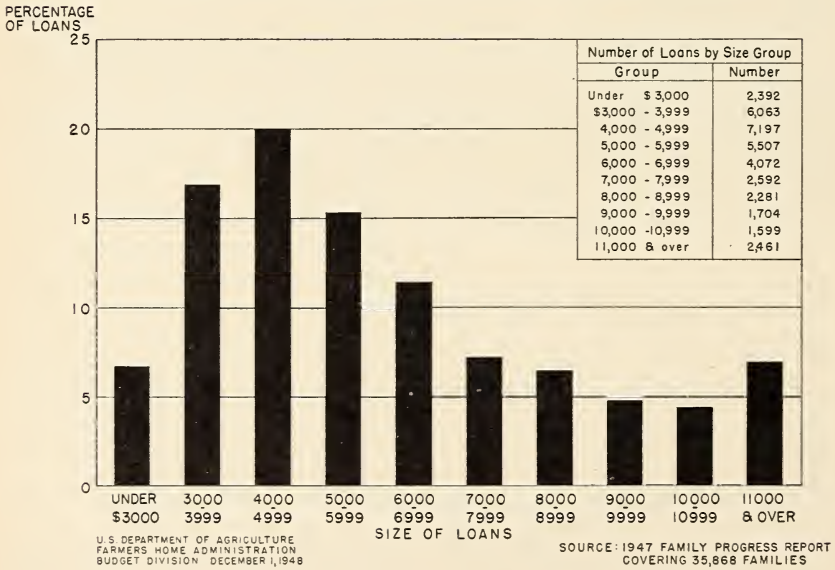

FIGURE 10

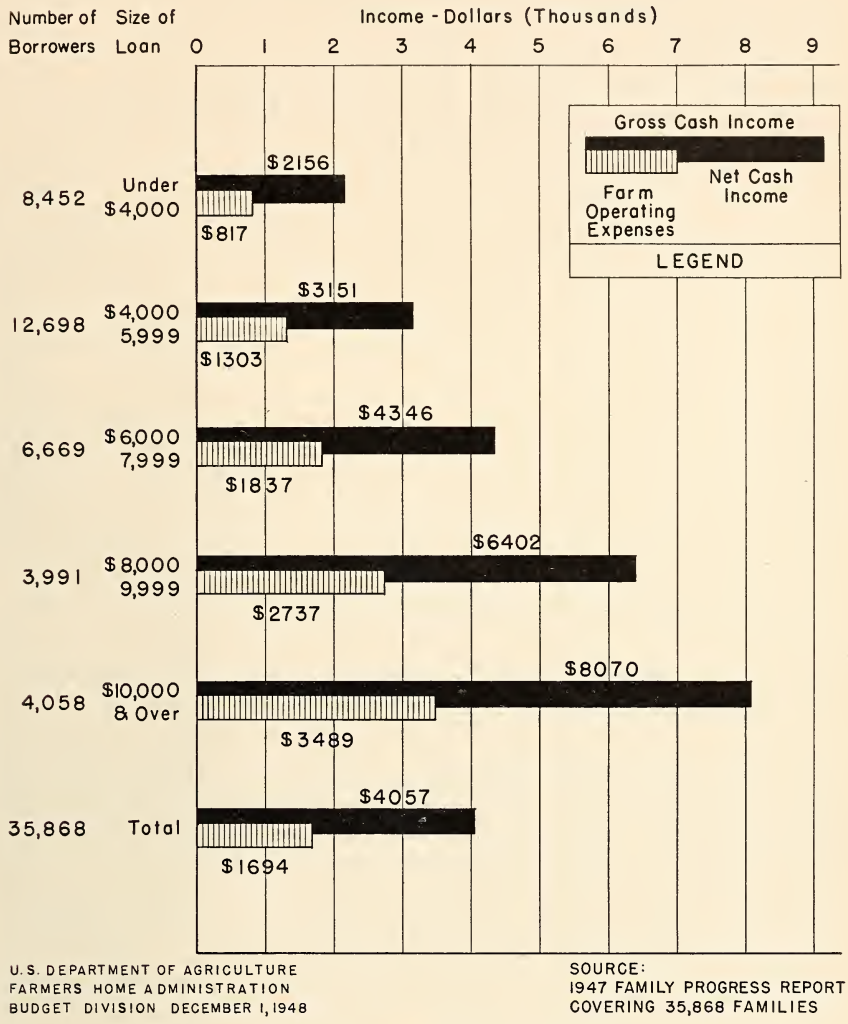

FIGURE 11

borrowers by lending money to purchase only the higher priced farms. This might be a good rule to follow if optimum opportunities for a few borrowers and repayment of the loan were the primary objectives sought. The primary objective, however, is to help as many eligible farm tenants, farm laborers, and share croppers as possible to become established on efficient family farms. There is a price level below which it is unwise to

go if the law is to be observed with respect to efficient farm units. There is a price level above which it is unwise to go if benefits are to be distributed to the maximum number of eligible persons.

The number of loans by years and the trend in size of farms and size of loans in the United States as a whole is shown in table 7. The number of loans, average amount of loans, and average size of farms by States is shown in table 8.

TABLE 7.—*Number of tenant purchase and farm enlargement loans, average amount of initial loan, and average size of farm purchased, by fiscal years* [1]

[U. S. total, including Territories]

Fiscal year (July 1 to June 30)	TP and FE loans	Average amount of initial loan	Average size of farms purchased with initial loan
	Number	*Dollars*	*Acres*
1938	1, 826	4, 925	130
1939	4, 166	5, 600	136
1940	5, 947	6, 020	139
1941	8, 140	5, 591	128
1942	7, 843	5, 692	131
1943	4, 725	5, 593	129
1944	3, 157	6, 068	132
1945	1, 817	5, 960	130
1946	3, 527	7, 600	162
1947	5, 408	7, 663	166
1948	1, 663	7, 423	151

[1] Data for each fiscal year exclude loan cancellations up to June 30, 1948.

Farm Ownership Farms Are Not Changed in Size as the Family Labor Supply Changes

"Family type" more definitive than "family size."—For 3 or 4 years after the passage of the Bankhead-Jones Farm Tenant Act the expression *family size farms* was used in the official instructions issued by the Farm Security Administration. Gradually, the word *type* was substituted for the word *size* in written instructions and discussions. The change of names was explained as follows by the Director of the Farm Ownership Division in a statement prepared in 1940 for the information of county FSA committees.

Since a family tends to fluctuate in size over any extended period of time, there is now a tendency to substitute the expression, "family-type farms" for the expression, "family-size farms." "Family type" conveys the idea that the farm is one which, in general, can be operated by a single (average size) family, whereas, "family size" seems to imply a farm which at all times is the right size to be operated by the particular family that occupies it.

The important question.—The issue involved in this connection is more deep-seated than a mere choice between two similar adjectives. That in itself is not important. The real question is whether the physical size of the farm-ownership farms shall be permitted to fluctuate with an increase or decrease of labor supply within a family. Shall a farm-ownership bor-

TABLE 8.—*Number of tenant-purchase and farm enlargement loans, average amount of loans, and average size of farm purchased, from beginning of farm ownership program to June 30, 1948* [1]

State	Cumulative through June 30, 1948		
	TP and FE loans	Average amount of loans	Average size of farm purchased with initial loan
United States total (including Territories)	*Number* 48, 219	*Dollars* 6, 301	*Acres* 140
Alabama	3, 582	4, 597	100
Arizona	67	7, 580	96
Arkansas	2, 744	4, 821	100
California	306	10, 017	61
Colorado	276	10, 163	289
Connecticut	30	9, 679	121
Delaware	76	6, 406	129
Florida	442	5, 113	137
Georgia	4, 549	4, 205	123
Idaho	233	10, 215	144
Illinois	764	9, 868	142
Indiana	678	9, 245	111
Iowa	966	8, 960	142
Kansas	919	8, 803	239
Kentucky	1, 001	7, 267	119
Louisiana	1, 598	5, 643	82
Maine	118	6, 689	149
Maryland	261	7, 500	138
Massachusetts	67	8, 053	87
Michigan	552	8, 138	122
Minnesota	1, 095	7, 942	166
Mississippi	3, 665	5, 633	87
Missouri	1, 813	6, 412	157
Montana	181	10, 479	469
Nebraska	734	9, 960	305
Nevada	23	10, 777	145
New Hampshire	23	6, 424	176
New Jersey	178	8, 994	77
New Mexico	155	10, 353	435
New York	589	6, 489	150
North Carolina	2, 888	4, 627	90
North Dakota	581	7, 585	497
Ohio	831	8, 212	110
Oklahoma	2, 466	6, 440	183
Oregon	190	9, 005	131
Pennsylvania	792	6, 234	125
Rhode Island	5	8, 014	86
South Carolina	2, 280	4, 459	109
South Dakota	554	8, 079	464
Tennessee	1, 816	5, 651	118
Texas	4, 272	8, 067	171
Utah	193	10, 194	124
Vermont	110	6, 471	181
Virginia	950	5, 611	134
Washington	184	9, 299	139
West Virginia	491	5, 037	140
Wisconsin	860	7, 003	131
Wyoming	114	10, 222	476
Alaska	5	9, 272	76
Hawaii	228	6, 165	30
Puerto Rico	724	5, 003	40

[1] Data excludes loan cancellation up to June 30, 1948.

rower with two or three ablebodied grown sons, for example, be permitted to rent an additional 80 or 160 acres of land while he is still in debt to the Farmers Home Administration. Conversely, shall he be permitted to subdivide his farm for the benefit of married children or for some other reason?

The tendency on the part of farm-ownership borrowers to alter the size of farm-ownership farms for one reason or another had manifested itself as early as 1940 as evidenced by the following letter sent by the Administrator to all regional directors with the request that it be discussed with State FSA advisory committees:

The long-time effect of the operations of the Bankhead-Jones Farm Tenant Act upon the American pattern of agriculture will depend in part upon whether the family-type units now being established by tenant-purchase borrowers are soon to be combined into larger holdings, subdivided into smaller units, or preserved indefinitely as family-type units. It has been suggested that something should be done, either administratively or legislatively, to preserve the units as they are now being developed unless it is discovered that an error has been made in individual cases as to what constitutes a family-type unit.

I desire that this matter be laid before our State advisory committees and that their advice be sought with respect to the development of a policy which from a long-time point of view will further the purposes of the act and the public welfare.

The question is not an academic one. Certain distinct tendencies have already manifested themselves among tenant-purchase borrowers. First, there has been a tendency to lease outside acreage and thus expand the scope of operation . . . there has also been a tendency on the part of some borrowers to enter into arrangements with share croppers under which they participate in the operation of the tenant purchase farms. . . . Still a third tendency is that of subdividing the family-type unit into two or more units in order to provide farms for married sons or daughters. . . .

It is my judgment that it is the clear intent of the Bankhead-Jones Farm Tenant Act to make loans available to eligible applicants who desire to increase their security by the ownership of family-type farms; that there are sufficient numbers of qualified farm tenants, farm laborers, and share croppers imbued by this worthy ambition to utilize all the funds available for tenant-purchaser (farm ownership) loans. I feel, therefore, that we are justified in setting up in the instruments under which loans are extended certain restrictions against the leasing of outside land and against the joint operation of tenant-purchase farms by owners and share croppers.

Such restrictions should not decrease the attractiveness of loans to those whose aim is the ownership and operation of a family-type farm. It may make the program less attractive to those who are actuated by motives of speculation or those who hope ultimately to operate on a large commercial scale.

After you have discussed these matters with your State advisory committees, I shall appreciate receiving any helpful suggestions that may be offered. I shall be interested especially in the views of committee members as to the desirability of the restrictions against leasing outside land by tenant-purchase borrowers and against entering into agreements with share croppers for joint operation of tenant-purchase farms. While the problem of transferring tenant-purchase farms from one generation to the next has not yet

become a pressing one it merits consideration and suggestions on that point will be appreciated.

Answering the above letter, State committees in general expressed themselves as being in favor of controls over changes in the size of farm-ownership farms. Farm-ownership policies have prohibited both the enlargement and the subdivision of farm-ownership farms except as a wartime expedient when manpower was short and the need for maximum production of food and fiber was urgent and except as it becomes evident that an error of judgment was made in the first instance in determining that a certain farm was a family-type farm.

If leasing or purchasing outside land or subdividing farms into two or more smaller farms were permitted, all attempts at administrative control over the size of farms operated by farm-ownership borrowers would break down completely. Persons disposed to criticize the controls might be equally disposed to criticize developments resulting from lack of controls. Without regulations to the contrary there would be many two-tractor farms and perhaps three-tractor farms and the magnitude of operations would be entirely out of keeping with any reasonable concept of a family-type farm.

The efficient family-type, farm-management unit which the law so definitely establishes as the standard to be adhered to can be undermined quite as definitely by a process of subdivision as it can by a process of enlargement. In fact, curing poverty on the land by enlarging and developing farms which will not support their occupants in decency while at the same time permitting borrowers to recreate the contributing causes of poverty by subdividing farms into units too small for successful operation amounts in reality to perpetuating a vicious cycle, to the detriment of the families concerned and that of the public as well.

Adjusting operations to the labor supply.—There are two ways in which adjustments can be made to meet fluctuating labor supplies due to changes in family composition on farm-ownership farms. One is to vary the intensity of the farming operation. If there are several children large enough to help with farm work, farm enterprises may be adopted which utilize the maximum amount of labor. While children are small or after they leave home a more extensive type of farming requiring less labor may be employed. The other is for some members of large farm-ownership families to obtain off-farm employment and for farm-ownership families with less than an average labor support to hire outside help. Under this process the labor supply will tend to equalize itself in the respective farming communities.

Policy subject to test.—A policy which conflicts with a widespread and deep-seated tradition is bound to be subject to severe and constant test. The anti-land-leasing policy of the Farmers Home Administration does conflict with well-established tradition. Particularly, in the northern Great Plains States the practice with respect to land holdings has been one that might appropriately be characterized as speculative expansion. "Buying more land to raise more wheat to buy more land to raise more wheat" paraphrases an old saying so that it becomes somewhat applicable to the situation under discussion. A specific example was cited by Secretary of Agriculture Clinton P. Anderson when he addressed a group of Farm Security Administration employees in 1945. He said:

When I was a boy, I knew two men who owned considerable farm land. They frequently purchased farm machinery from my father. I knew these men very well and respected them very much. They were good farmers. During World War I, these men wanted to do their part as farmers and in so doing, greatly expanded their operations, buying land when land values were going up rapidly. They mortgaged their farms and were caught in the period of deflation which followed the war. These men went broke. Some years later when I went back home, I met one of these men on the street. He was not well dressed and not flourishing in funds and asked me for a job as manager of one of our farms. There is something wrong in a society where such a situation can arise. You see, I should have been asking him for a job. Those things burned themselves on my conscience and I have never been able to forget the picture.

The proscription against land leasing by farm-ownership borrowers is designed to emphasize a safe nonspeculative, nonexpansive land tenure pattern under which the goals sought are paying for the farm, improving it as a place to live and make a living and bringing it into maximum productivity.

One exception has been made to the antileasing policy other than the wartime relaxation previously mentioned. In western grazing regions permission has been granted to purchase "headquarters units" and lease additional grazing land. The policy is expressed in these words:

The proceeds of such loans may be used to purchase, in certain specially defined cases in which it is economically unsound to acquire the land necessary to the farming operation, headquarters units which, when operated with adjacent lands dependably available to the operator for the term of the loan, will constitute family-type farms.

"Adjacent lands dependably available . . . for the term of the loan" are seldom found other than on national forests or other public lands not likely to be homesteaded.

Criteria for the Selection of Farm Ownership Farms

Very few farm-ownership borrowers approach the purchase of a farm with the benefit of past experience, yet often it is destined to be the most important single business transaction of their entire lifetimes. Borrowers find themselves obliged to deal directly and through others with such technical and often complicated matters as options, appraisals, boundary surveys, legal descriptions, title examinations, title guaranties, mineral rights, and types of estates. They also encounter the more personal and practical considerations of desirability of the community in which the farm is located as a place to live, the homemaking possibilities of the farm itself, and its capacities for producing enough income to support a family and pay for itself.

In view of these facts the Farmers Home Administration has developed a number of criteria for the selection of farm-ownership farms which are designed to be helpful to applicants, safeguard their interests, and at the same time carry out the intended purposes of the law under which loans are made. Agency procedures recommend that:

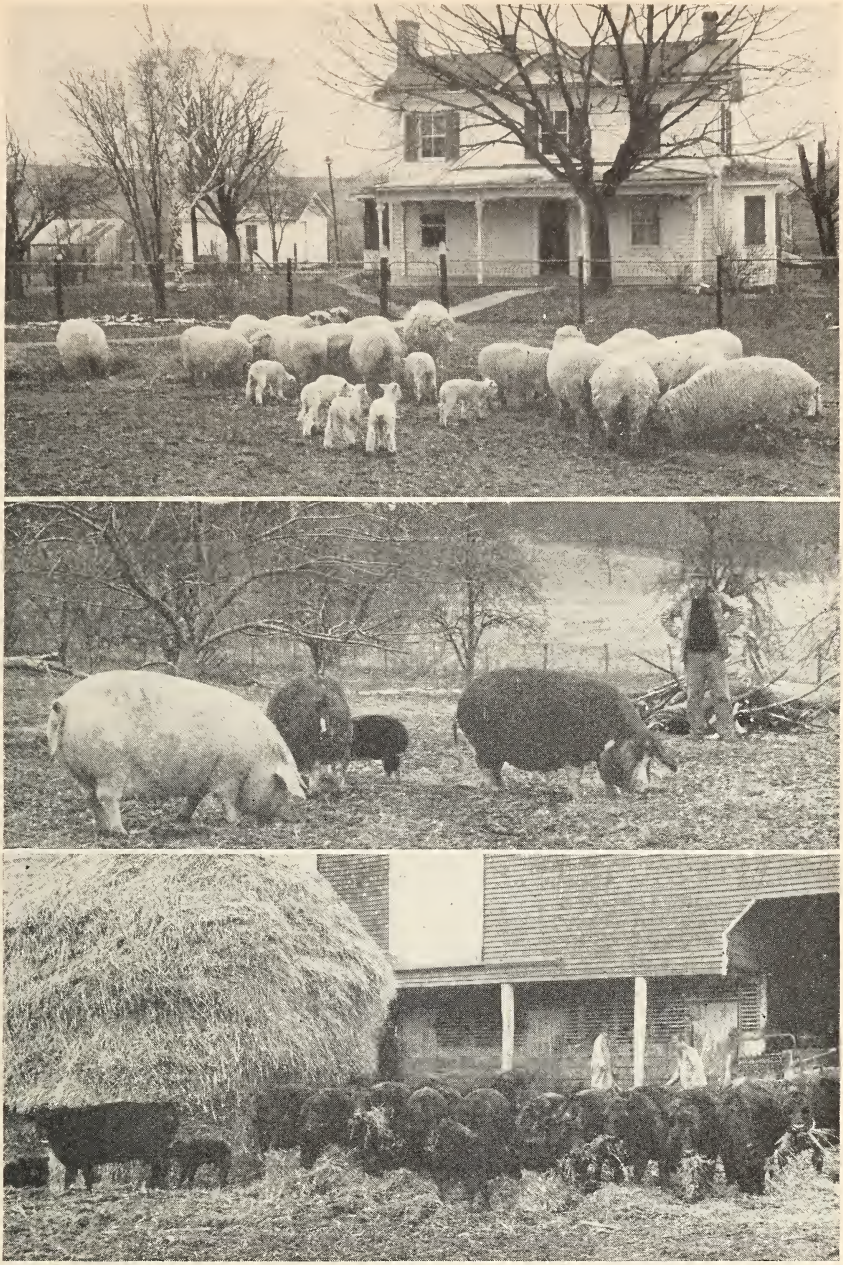

FIG. 12.—A farm-ownership loan made it possible for Bryan Hepner to buy the "old home place" in the Shenandoah Valley of Virginia. Angus cattle, Poland China hogs, good quality sheep, New Hampshire Red chickens and all-around good management paid off the loan in 5 years.

A careful inquiry should be made relative to the title, legal description and boundaries of any land to be purchased as well as any land already owned by the applicant, before time is lost in considering other aspects of the farm.[1]

Consideration should be given base acreage allotments and assigned yields or productivity indexes upon which soil conservation payments are made.[2]

If a farm-ownership farm is to be formed by combining separate tracts of land, the tracts preferably should be contiguous. However, a farm may consist of noncontiguous tracts if they are so situated with respect to each other that the combined unit can be operated conveniently and efficiently as a family-type farm. This is especially important in making farm-enlargement loans, since the question of operating noncontiguous tracts is more likely to arise in connection with this type of loan.[3]

Enlargement or development of farms should constitute the primary purpose of farm-enlargement or farm-development loans. Refinancing in connection with farm enlargement and farm development must not constitute the primary purpose of the loans. However, since it is necessary to obtain a first mortgage or a deed of trust on farms, funds for refinancing purposes may be included in farm-enlargement and farm-development loans.[4]

Farms should be approved which consist almost wholly of undeveloped land that requires an excessive amount of expense or labor for land improvement, and which will not produce an income sufficient to support the family, meet operating expenses and payments on the loan the first year of operation.[5]

Farms will not be approved in areas designated for retirement from agriculture by Federal, State, or county land use planning agencies, or areas so poor that they are likely to be so designated. Outside of such area, it will be necessary, in order to assist persons in greatest need of farm-ownership loans, to make such loans in areas including poor as well as good land. When loans are made for the purchase of poorer grades of land, unusual care must be exercised to see that it is purchased at a price in line with its earning capacity. Land that is worn out, eroded, foul, and weedy cannot be restored to productivity quickly or without great effort and expense. This fact should be taken into account in determining the present value of the land.[6]

In farm selection and approval, due consideration should be given to roads, schools, markets, and other community facilities. The tax rate on farms, the bonded indebtedness and other costs incident to irrigation and drainage, or other types of improvements, also should be considered. In irrigation areas, careful consideration should be given to the adequacy of the water supply and water rights.[7]

When a farm is not on a public road, it is essential that there be a satisfactory legal right-of-way from the farm to a public road.[8]

In the selection of farms and the approval of applicants all possible precautionary measures are taken to avoid favoritism or the appearance of

[1] FHA Instruction 421.1, IV A (Jan. 28, 1947).
[2] Ibid., IV B.
[3] Ibid., IV A.
[4] Ibid., IV D 1.
[5] Ibid., IV E.
[6] Ibid., IV G.
[7] Ibid., IV H.
[8] Ibid., VI I.

favoritism. Loans cannot be made for the purchase of farms in which members of county committees have an interest nor can loans be made to relatives of county committees or of FHA employees who participate in the approval of loans unless protective safeguards are observed.

FHA instructions contain the following statements with respect to side agreements:

Side agreements between applicants and sellers involving a purchase price greater or less than the option price or any additional consideration whatsoever are in violation of the Farmers Home Administration Act. Any party entering into such side agreements or misrepresenting in any way the purchase price is subject, upon conviction, to a $2,000 fine or imprisonment for 2 years or both, as provided in the act and specified in the option. The FHA supervisor is responsible for informing applicants and sellers regarding these penalties. . . . Failure on the part of FHA employees to carry out the spirit and intent of these provisions with respect to side agreements will constitute an offense of serious gravity and will be dealt with accordingly. The following courses of action are among those which may be taken by the State FHA director in cases involving side agreements after careful review of the circumstances involved: (1) Refuse to make loan, if it is not closed; (2) return to borrower any funds paid by or for the borrower as a result of the side agreement; (3) foreclose loan; (4) recommend proceedings under penalty provisions of act to the Administrator; (5) recommend appropriate disciplinary action with respect to FHA employees in cases in which they have been remiss in discharging their responsibilities or have been implicated personally in the offense committed.[9]

Since one person may own a tract of land and another person the minerals such as coal, oil, etc., that lie in or under the land, the question of mineral rights assumes very great importance in many farm real-estate transactions.

The basic policy of the Farmers Home Administration with respect to mineral rights is stated thus:

It is the general policy of the FHA that borrowers will hold all of the mineral rights in land purchased, improved, or refinanced with the proceeds of farm-ownership loans. In some instances, however, sellers may refuse to transfer mineral rights, or such rights may be vested wholly or partially in third parties. In such situations, field officials are to be guided by the principle that, with respect to the minerals, the applicant should make as good a bargain as is possible in the circumstances.[10]

Various quotations from the Bankhead-Jones Farm Tenant Act and from instructions issued by the Farmers Home Administration have included references to the exemption of disabled veterans with pensionable disabilities from the requirement that the farm purchased must be an efficient family-type, farm-management unit. The regulations governing such purchases follow:

Farms that are less than efficient family-type farm-management units may be acquired, enlarged, or improved by eligible war veterans who are receiving disability pensions, provided that (1) the size and character of the farm are suitable to the particular needs and capabilities of the disabled veteran;

[9] FHA Instruction 421.2, IV (February 10, 1947).
[10] *Ibid.*, III (February 10, 1947).

(2) the farm has the capacity to produce an annual income which, together with the veteran's disability pension, will enable him to meet his normal obligations. These obligations will include family living expenditures which will maintain acceptable standards of living for the veteran and his family, as well as operating expenses, and amounts due on his loan; (3) the unit is larger than a mere garden plot or rural residence; (4) a satisfactory farm plan can be carried out with the available family labor; (5) the unit is of such character and productivity that it will not be necessary for the disabled veteran to use all or part of his pension to support unprofitable farming operations; (6) farm income and disability compensation will constitute the major sources of income. Part-time farms, on which disabled veterans plan to live and devote most of their activity to nonfarm employment, should not be approved.[11]

Farm Ownership Farms May Be Acquired by Purchase, Enlargement or Development

Borrowers have wide latitude in selection of farms.—The opening paragraph of the Farmers Home Administration instruction on the selection of farms provides that "after applicants have acquired a proper understanding regarding the basic objectives of the farm-ownership program, they will be given wide latitude in the selection of the farm they desire to purchase." [12] The policy as it really operates would be more accurately expressed if the concluding half of foregoing statement read: "They will be free to select, subject to subsequent approval by the Farmers Home Administration, the farms they desire to purchase." Borrowers do have complete freedom in the choice of their farms so long as the various conditions are met which have been established to assure compliance with the law. This is the borrower's personal responsibility—more than it is his inherent right and privilege. It would indeed be an extreme and unwarranted exercise of public authority if the Government were to select the farm which the borrower is to purchase. The farm chosen is likely to be the borrower's home for the remainder of his lifetime and often the home of members of his family who survive him.

Before a loan is closed the borrower and his wife sign the "Informal Agreement," previously referred to, which contains this declaration: "We are satisfied with our farm and with the plans for repairing, improving, and operating it which we have developed with the help of the Farmers Home Administration." It is the earnest desire of the Farmers Home Administration that this be the free and voluntary expression of the actual feeling and attitude of the borrower and his wife toward the farm they are purchasing and the general plan adopted for developing it and operating it.

FHA employees may help.—Although as indicated, the applicant is responsible for selecting his own farm, employees of the Farmers Home Administration are authorized to render assistance in the following manner:

When it appears that farm-ownership applicants may have difficulty in locating and selecting desirable farms, the FHA supervisor may prepare a preliminary list of farms which he has learned are for sale . . . (He) will not promote the sale of any particular farm or group of farms and will avoid

[11] FHA Instruction 421.1, III A, 1 to 6, inclusive (January 28, 1947).
[12] FHA Instruction 421.1, A (January 28, 1947).

commitments as to the price, but he will obtain all information that is available on this subject . . .

Buying entire farms.—There are three ways of obtaining farm-ownership farms. First, entire farms which conform or can be made to conform with the Farmers Home Administration definition of efficient family-type farm-management units may be purchased outright. The loan to purchase these "entire" or "whole" farms which are potentially efficient family farms includes such funds as may be needed, along with the borrower's own funds, if he invests any, to put the farm in operable and livable condition. Before the Bankhead-Jones Farm Tenant Act was amended in 1946 practically all farm-ownership loans were made to finance this type of purchase.

Technically, loans for the purchase of full-fledged farms are called "tenant-purchase loans" in FHA instructions and are defined as "loans made or insured to enable eligible persons who do not own farms to purchase and improve family-type farms." It is well to note the qualifying expression "who do not own farms," otherwise there may be a tendency to confuse tenant-purchase loans with development loans made to persons who do own farms. If a borrower purchases an entire farm outright his loan is called a tenant-purchase loan even though he uses part of his loan funds to develop the farm which he purchases. If he already owns a farm and obtains a farm-ownership loan to develop it such a loan is called a development loan. Thus, the distinctive difference between the two types of loans is that a tenant-purchase loan is made to a borrower who does not own a farm and a farm-development loan is made to a borrower who does own one.

Number of ready-made farm-ownership farms.—Probably in the neighborhood of a million and a half farms, or slightly less than one-fourth of all the farms in the United States, conform in general to the Farmers Home Administration definition of efficient family-type, farm-management units and come within the legal price range of such farms. This estimate is based largely upon a "Special Report, 1945 Sample Census of Agriculture" classifying farms in the United States accordingly to the economic status of their operators.

Number of "ready made" farms available.—More important than the number of "ready-made" farm-ownership farms is the number of such farms available for purchase. Certainly only a fraction of the total are available for purchase at any given time and a still smaller fraction are available at prices consistent with their earning capacity values.

The release of men from the armed forces following the close of the war, and the desire of many of them to engage in farming caused the United States Department of Agriculture to take stock of the number of farms likely to be available to veterans. In a publication entitled, "Farm Opportunities—Prospects—Problems—Policies," issued in May 1945 and revised and reissued in September 1946 the Department reported:

In general, the public land that is easily adapted to farming in all States has been settled. What remains must await irrigation, drainage, clearing, or development . . . Renting or buying farms from present owners in an established community is the best way for a veteran to become a farm operator. This method provides the most openings, too . . .

In the last 3 years, about 300,000 farms and farm tracts per year were transferred through voluntary sale. Many of these farms were bought by tenants and other farmers and thus did not give new farmers a chance. Many farmers have reached an advanced age and wish to retire and rent or sell their farm. Through retirement, death, and change to other work by older farmers in the next 5 years, a total of approximately 800,000 farms, or 160,000 farms per year, will become available for sale or rent but many of these farms are too small or too poor in condition to provide a full-time farmer with an adequate living.

Assuming that around a third of the farms available for purchase would be suitable for farm-ownership farms the yearly supply would be 50,000 or 60,000. Naturally, farm-ownership borrowers would be in competition with all buyers seeking to purchase these farms. Sometimes transfers are "within family" transactions and outsiders would have no opportunity to buy. On the whole, however, such information as is available is consistent with the observations and experience of the Farmers Home Administration, namely, that a good many farms suitable for purchase by farm-ownership borrowers change hands every year in the United States.

Into whose hands shall these farms pass? If the million, more or less, farm tenants, farm laborers, and share croppers in the United States, who are potentially eligible for farm-ownership loans are not to be included among the purchasers, the agricultural ladder will be virtually inoperative so far as they are concerned. Efficient family farms will tend gradually to pass into the hands of farmers with substantial financial resources at their command or into the hands of nonfarmers electing to invest in farm real estate. Viewed in this light, tenant-purchase loans which have been of paramount importance thus far as compared with enlargement or development loans will continue to be an important means of achieving the objectives of the Bankhead-Jones Farm Tenant Act. It is altogether probable that in the future farm-enlargement and farm-development loans will increase substantially in number and significance but this will be because of their intrinsic merit and value and not because loans for the purchase of entire farms have become less important.

Need for enlargement and development loans.—Farm-enlargement loans are described in FHA instructions as, "loans made or insured to enable eligible persons, who own farms which are definitely too small and inadequate to constitute family-type farms, to enlarge, repair, or improve such farms so that they will definitely constitute family-type farms." Farm development loans are defined as "loans made or insured to enable eligible persons who own farms of adequate acreage to constitute family-size farms, but which because of underimprovement are definitely not sufficiently productive to constitute family-type farms but can definitely be made sufficiently productive by proper repair and improvement to constitute a family-type farm."

Before the farm-ownership program had been in operation many years, it became evident that authority to make enlargement and development loans was needed in order to deal adequately with the maladjustment of population to land, and one of the chief causes of poverty on farms. The original Bankhead-Jones Farm Tenant Act contained no specific authorization for

either of these types of loans. However, on August 22, 1942, the Solicitor issued opinion No. 4390 in which it was stated that such loans could be made. The Administrator had advised his administrative staff and regional directors, in attendance at a conference at the Hamilton Hotel, January 2–5, 1942, that it would be the policy of the Farm Security Administration to make such loans if it were found by the Solicitor that it could be done legally.[13] This decision was first reflected in FSA Instruction 600.1 issued October 12, 1942, which contained two paragraphs as follows:

F. E. (farm enlargement) loans may be made to eligible persons who own farms which are definitely too small to support an average family according to acceptable living standards.

F. D. (farm development) loans may be made to eligible persons who own farms which if properly developed and financed would constitute economic, family-type units.

For a combination of reasons practically no loans were made under these authorizations. The conference at which the policy was announced dealt almost exclusively with ways and means of stimulating food production as a war measure. At a conference of Farm Security Administration employees held a year later at French Lick, Ind., the Director of the Farm Ownership Division stated "except as authorized by the Administrator in special cases, these loans (farm enlargement and farm development) should be regarded as in a state of suspension until they are more definitely covered by enabling legislation and specifically implemented by special appropriations . . . there is a big need for such loans but after operating on a basis of loans to purchase complete (ready made) family-type units it does not appear wise to enter so distinct a field until and unless Congress defines it and authorizes it." Testifying before the Agricultural Committee of the House of Representatives on April 27, 1944, FSA Administrator Frank Hancock said:

In a letter to Congressman Cooley under the date of March 16, 1944, I expressed the opinion that loans to permit the enlargement of farming units that are too small to permit successful family-type operations and loans to permit clearing, draining, leveling, and otherwise improving farms are essential to well-rounded programs to facilitate ownership of family-type farms. I believe that a reasonable interpretation of the act warrants the assumption that such loans are authorized but I trust you will convey your wishes on that point clearly.[14]

On October 23, 1945, Senator Bankhead of Alabama introduced S. 1507 which contained essentially the provisions with respect to enlargement and development loans which are incorporated in present legislation. Testifying in support of S. 1507 on March 19, 1946, Charles Brannan, then Assistant Secretary of Agriculture, said:

The authorization to enlarge small inadequate farm units contained in S. 1507 has long been needed and will make possible a type of assistance to many small farmers who are without a source for such assistance and who

[13] This action is not recorded in written proceedings. It is reported on the basis of the author's memory of the event.

[14] Hearings before the Committee on Agriculture, House of Representatives, 78th Cong., 2d sess. on H. R. 4384, p. 229.

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will be enabled to make full use of the labor resources of themselves and their families and improve their standard of living.

Likewise, there are many farmers who have enough land but those units are not efficient because they need drainage, or perhaps they need access to irrigation, water, clearing, leveling, terracing, perhaps a barn or other buildings adaptable to a different type of farming enterprise. This bill would authorize assistance to these farmers.

Enlargement and development loans authorized.—S. 1507 passed the Senate almost immediately after date above mentioned, but in the House it was merged with the Cooley bill which passed both Houses and was approved on August 12 as the Farmers Home Administration Act of 1946. Thus all questions of doubt as to the legality of enlargement and development loans were completely removed and these two additional approaches to the solution of the country's land-tenure problems were thrown open.

Writing in the August 1945 issue of the Journal of Farm Economics, John D. Black of Harvard not only stressed the importance of enlargement and development loans but he made a particularly clear statement of the reasons why they were important. With respect to enlargement loans he said:

The most serious gap in our present agricultural credit system is loans to enable farmers to get enough land to make an economic unit. You may say that farmers who already have farms have no difficulty in borrowing on a mortgage in order to buy additional land. This is true of those who already have sizable farms under small mortgages. But such farmers ordinarily do not need more land very much. The ones who really need it are those who already have mortgages on small farms and are having difficulty carrying even the mortgage which they have because their farms yield such small returns; or they are not mortgaged but their earning power is so low on their present farms that lending agencies do not consider them safe risks. Farmers in either of these situations are in a vicious circle. They are not able to borrow because they have so little resources; and only with great difficulty can they increase their resources without borrowing in order to get command of more resources.

Some way needs to be found of breaking into this vicious circle, and credit can be an instrument to this end. But it must be used as such an instrument with much care. A large fraction of the farmers in these difficult circumstances are too far along in years to safely reach out and buy more land. Others of them are poor farmers, or at least can be made into successful farmers only with great pains. Others are unthrifty and improvident farmers. But in the midst of all these in an ordinary state are many thousands of relatively young men who need only to be given a chance in order to increase their earning power; and the next 5 years will bring along as many more thousands. If these can be helped, in 20 years we will have improved the earning power and increased the income of several hundred thousands of our good young men . . .

The Federal land banks are now able to make loans for the enlargement of farms whenever the present farmer is in a position to carry an additional mortgage. However, 50 percent of the value of the land now in the farm, plus 20 percent of the value of the buildings, does not permit very much of a mortgage, and many of these farms are mortgaged already. Raising the loan limit to 65 percent, as provided in H. R. 2113, helps considerably, but it often does not help enough. Combining a first-mortgage loan from a

Federal land bank, with a land bank commissioner loan, making possible a loan up to 75 percent of the normal appraised value of the farm, will help out still more if this arrangement is continued beyond the present 1-year limit. The Farm Credit Administration therefore has facilities for doing a great deal along these lines, if it will make full use of its opportunities. Perhaps it would do this if Congress in revising the existing legislation were to make a special point of designating this type of loan as one to be financed.

The young farmers who cannot qualify for a FCA loan on the terms outlined can obtain loans under the Bankhead-Jones Act as that act is now being interpreted. However, any of its loanable funds which are so used reduce by so much the amount available to enable tenants to purchase whole farms. It would be well if the language of the Bankhead-Jones Act were rephrased so as to make it very clear that loans of this type are to be financed as well as tenant-purchase loans, and an appropriation were made to cover these loans which is an addition to that for tenant purchase.[15]

On June 6, 1946, 1 month and 10 days before the President approved the Farmers Home Administration Act of 1946, the Director of the Farm Ownership Division made the following statement before the Annual FSA Planning and Policy Conference:

We have gone far enough, however, to learn that there is often no way to enlarge a farm that needs to be enlarged simply because there is no contiguous land available or none available at a reasonable price. This is not always true but it is true in many communities in which farms are typically too small. We must not abandon the enlargement loan, however. On the contrary, we must, to the greatest extent possible, master the difficulties involved in making such loans for the simple reason that poverty stemming from inadequate units is one of the most prevalent maladjustments in American and, in fact, in world-wide agriculture.

The farm-development loan will make possible the clearing, draining, irrigating, or leveling of unproductive land and putting needed improvements on such land. It appears to be a tool that we can use with greater ease than we can use the enlargement loan in tackling the problem of tenure improvement. We lack authority for this loan at present, but we have prospects of obtaining such authority in pending legislation.[16]

During the fiscal year ending June 30, 1948, 2,256 initial farm-ownership loans were made, of which 1,785 were tenant-purchase loans for the purchase of entire farms, 305 were development loans and 166 were enlargement loans. The previous fiscal year only 232 development loans were made although 3 times the amount of loan funds were available. The number of enlargement loans dropped off by 154. More significant than the increase in number of development loans is the growing interest in such loans reported by field employees of the Farmers Home Administration. It is probable that enlargement loans will be fewer in number, not because they are less needed, but because the land with which to enlarge the undersized units is not available in many instances.

[15] As previously indicated the language of the Bankhead-Jones Farm Tenant Act was rephrased in the Farmers Home Administration Act of 1946 as Dr. Black expressed the hope that it would be. To some extent also authority to insure loans made by private lenders may solve the problem of financing the newly authorized loans so that they will not be competitive with loans to purchase entire farms.

[16] Authority granted in Farmers Home Administration Act of 1946.

It may be significant that 26 percent of the initial insured loans made in 1948 were development loans while only 15.6 percent of the direct loans were development loans. This appears to support the theory that many owners of undersized and underdeveloped farms will have 10 percent net equities in their properties and thus be able to obtain insured enlargement and development loans without making cash down payments. Many would-be purchasers of entire farms will not be able to make the required 10 percent cash down payment necessary in connection with an insured loan, and will thus be obliged to get direct loans or do without loans altogether. Thus, the enlargement and development loans of the future may be largely insured loans while a higher percentage of farm purchase loans may be financed by direct loans.

Number of farms needing enlargement or development.—According to a special report of the Bureau of the Census classifying farms by economic status, there were 1,661,920 farms in class IV generally described as small, family size farms. In 1944 the farms in this class produced between $1,200 and $3,000 worth of products and the land and buildings were valued under $20,000 or they produced between $500 and $1,200 worth of products and the value of land and buildings was between $8,000 and $20,000. Significantly, the average value of the land and buildings was only $5,117. It is probable that at least 500,000 of these small-family farms need enlargement or development.

There were 602,212 farms in class V. Their operators worked off the farms more than 100 days per year. The value of the products produced ran down as low as $250, but did not exceed $1,200. More than a third of them had fewer than 10 acres of cropland harvested. Obviously, this economic class includes many part-time farmers and perhaps some retired persons with nonfarm income who are part-time farmers by choice. On the other hand, it is reasonable to assume that class V includes some involuntary "part-time" farmers who would prefer to devote all their time to farming if their farms could be made adequate by enlargement or development. When the census was taken in 1944 wartime employment was at a peak. Some of the class V farmers who had good off-farm incomes then may be less fortunate now. In view of the diverse nature of the group and the lack of complete data about them, it is difficult to estimate how many of their farms need enlargement or development. Ten percent would appear to be a conservative estimate.

There were 923,459 class VI farms, which in 1944 produced between $500 and $1,200 worth of products and on which the operator worked less than 100 days off the farm. This suggests that operators were relying primarily upon the farm as a source of livelihood. The value of the land and buildings was less than $8,000 per farm. Since this was the upper limit, it follows that the land and buildings on many of the farms had values substantially less than $8,000. In fact the average value was $2,305. These facts warrant the assumption that many of the farms in this class, perhaps between a third and a half of them, need enlargement or development.

Class VII includes 987,277 farms. Among them are more than a half million producing less than $250 worth of products for sale or use. Many

of these so-called farms no doubt are merely rural residences whose occupants are not dependent upon farm income. Rich men's hobby farms would fall into the class as it is defined. However, at least 250,000 farms are included in class VII with a value of products ranging from $250 to $500, value of land and buildings less than $8,000 and the operator working less than 100 days off the farm. The low income, low property evaluation and limited off-farm employment suggest that many of these are inadequate farms in need of enlargement or development.

Doubtless at least a million of the more than four million farms reported by the census as being in economic status classes just described are in need of enlargement or development loans and few of the operators of such farms could be expected to get the credit they need for such purposes from established private or cooperative credit sources. The census reveals that many of the occupants of these farms are in the upper-age levels, that is 65 years of age or more. It is to be expected therefore that each year many farms with elderly occupants will pass into the hands of younger operators who will need better outlets for their labor and larger incomes to support growing families than the farms in their present condition will provide. It is also to be expected that the percentage of elderly people in the population will continue to increase for some years to come. There must be farms suitable to the needs of those who by choice or necessity spend their declining years on farms.

A successful enlargement or development loan accomplishes two purposes. It benefits the recipient by liberating him from the handicaps that have held him back and at the same time converts an inefficient farm which tends to perpetuate poverty into an efficient farm on which successive generations of operators will have a chance to succeed. Transferring a ready-made farm from one owner to another accomplishes only the first of these two purposes, unless the farm in question happens to be, as it often is, an underdeveloped farm which is developed by use of part of the proceeds of the purchase loan. In this case also a double purpose is accomplished.

Farm Ownership Farms May Be Created by Subdividing Large Holdings

Subdividing large land holdings into efficient family-type farms suitable for purchase by farm-ownership borrowers is important in the plantation areas of the South and in the islands of Puerto Rico and Hawaii. It is less important, but a process that can be utilized to some extent, in other areas of the country where, for one reason or another, larger-than-family-type units can be purchased and subdivided. This might occur when farms in irrigated areas become subject to the provisions of the 160-acre limitation of the Federal Reclamation Act.

Subdivision important in plantation area.—From the standpoint of the administration of the Bankhead-Jones Farm Tenant Act, subdivision has its most important application in the southern plantation area. Many of the potential beneficiaries of this act in Southern States reside upon plantations. If any considerable number of them are to become farm owners, it will be necessary to convert plantation land into land operated by owners of family farms. Such a change in tenure pattern is fraught with much social and economic significance, whether it be accomplished quickly or

gradually. Attempting to accomplish it quickly or in revolutionary fashion would be both undesirable and impracticable. There are many problems involved in accomplishing it gradually under normal evolutionary processes. Fortunately, a study of the desirability and practicability of converting plantations into family-type farms, is greatly facilitated by a special 1945 report from the Bureau of the Census, entitled "Multiple Unit Operation." Tables 9, 10, 11, and 12 presented herewith are developed from data contained in this special report, except for certain data in table 12, relating to farm-ownership farms. The map on page 142, the data in the tables, and the discussion of that data, will be made more understandable by reading of the following portions of the introductory statement of the Census Report in which the plantation system is described:

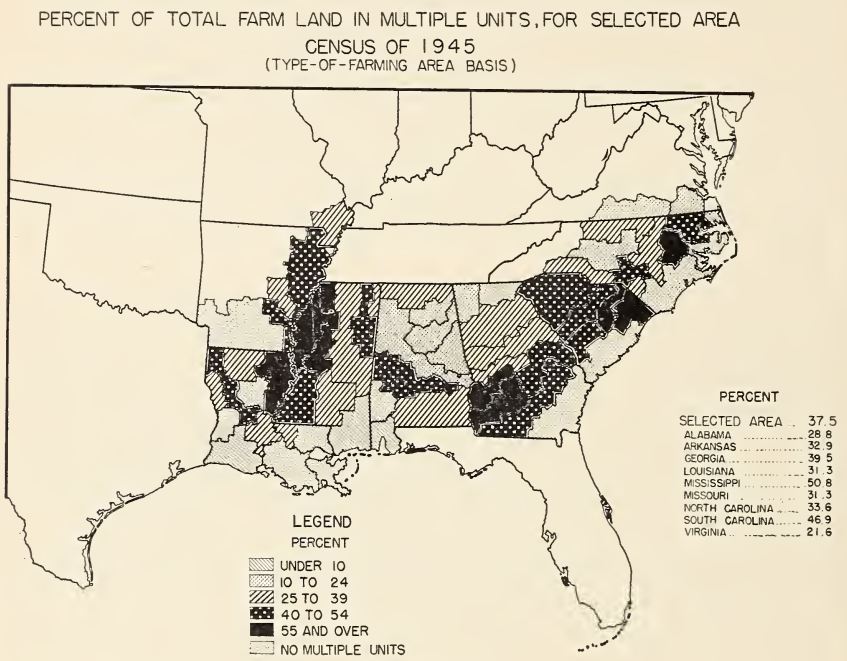

FIGURE 13

Description of plantation system.— . . . each tract of land operated by a tenant—whether a renter in a more restricted meaning of the word tenant or whether a share cropper has been considered as a separate farm. The tract of land operated by each cropper or other class of tenant has been recorded as a separate farm even though a part of a larger operating unit. In order to enumerate all the land that is actually associated with the operating unit (hereafter designated as multiple unit), it is necessary to record all land other than that assigned to croppers or tenants as the home farm. Sometimes no crops are grown on the home farm; in other cases, only feed crops are grown; and, in still other cases, a part or all of the cropland is used for the growing of cash crops with the help of wage hands. The cropper parts of the multiple unit often have no work stock or power and machinery.

Such work stock and machinery, in accordance with the instructions to report these items on the schedule for the unit or farm where they are kept, are usually reported for the home farm. Thus, neither the home farm nor the other subunits of a multiple-unit operation, when enumerated individually, represent complete operating units. . . . The usual share for the cropper is one-half of the crop, but many variations occur because of variation in the amount of the production items each participant furnishes and for other reasons. Each cropper is charged with his share, usually one-half, of the fertilizer used and, in the case of cotton, he may pay a share of the cotton-ginning costs.

The area selected for the study of multiple-unit operations embraces 7 selected counties in southeastern Missouri, 16 in Virginia, 46 in Arkansas, 80 in North Carolina, and the entire States of Alabama, Georgia, Louisiana, Mississippi, and South Carolina. Thus a large proportion but not all of the plantation area in the United States is covered by the report. The 1945 census reports 446,556 southern croppers all told, whereas in the selected area embraced in the study, includes but three-fourths of that number.

Data on plantation area.—There are 553,226 subunits in all the 141,316 multiple units in the selected area. As the Census Bureau report indicates, each of these is a farm in census terminology. Around 126,226 of the subunits of multiple units are home farms. They are occupied by 99,185 owners; 10,848 part owners; 2,237 managers. It is assumed that the balance of the home farms, around 14,000, are occupied by tenants. Home farms are from 3 to 11 times as large as the other subunits making up the plantation. Usually the home farm has good improvements upon it. Often the work stock are housed and pastured on the home farm.

There are 426,998 other subunits, and 324,693 of them are occupied by share croppers. In other words, more than three-fourths of the plantation subunits, other than home farms, are occupied by share croppers. The popular impression which associates share croppers and plantations is apparently justified. All plantation subunits, however, are not occupied by share croppers. There are in the selected area 65,853 share tenants; 20,688 cash tenants; 3,729 share cash tenants; and 25,999 other and unspecified tenants, some of whom are doubtless wage hands.

There are 43,597,528 acres included in multiple units. This is 35.7 percent of all of the farm land in the selected area. As revealed in column 6 of table 11, slightly more than half of the farm land in Mississippi is in multiple units. Forty-six and nine-tenths percent of the land in South Carolina is in multiple units. The map on page 142 shows the location and distribution of multiple units, and it points quite definitely to the conclusion that if share croppers are to become owners of family farms, such farms must be created in large measure out of plantations. The only alternative to this procedure would be for share croppers to locate suitable farms not embraced in the plantation system. There are two reasons why this is not practical. First, farms not included in multiple units are presently occupied by either renters or owners, and it is not likely that share croppers could, as a rule, be successful competitors for the purchase of such farms. Out of 30,003 farm-ownership loans consummated as of December 31, 1942, only 308, or around 1 percent were made to applicants other than

residents of the counties in which the purchases were made. Share croppers and tenants are reluctant to move from one community to another. Furthermore, county committeemen who pass upon the qualifications of applicants are very naturally and very logically disposed to favor the home-folks over outsiders.

Table 9 shows the acres of land in multiple units by States in the selected area, and the use to which the land is put. Column 1 indicates the total acres in multiple units.

TABLE 9.—*Acres of land in multiple units, by States in selected area and use to which such land is put* [1]

State	In multiple units (1)	Cropland harvested (2)	Crop failure (3)	Cropland idle or fallow (4)	Cropland used only for part time (5)	All other other land (6)
	Acres	*Acres*	*Acres*	*Acres*	*Acres*	*Acres*
Alabama	5, 483, 189	1, 820, 390	11, 757	269, 183	277, 553	3, 104, 306
Arkansas	3, 652, 109	2, 002, 806	52, 298	168, 892	203, 097	1, 225, 016
Georgia	9, 341, 256	3, 521, 433	32, 514	633, 179	281, 991	4, 872, 139
Louisiana	3, 140, 079	1, 077, 860	39, 316	157, 625	238, 662	1, 626, 616
Mississippi	9, 960, 439	3, 898, 718	79, 921	397, 095	459, 878	5, 124, 827
Missouri	631, 255	505, 227	5, 173	6, 905	35, 549	78, 401
North Carolina	5, 385, 159	2, 032, 391	12, 744	206, 186	104, 113	3, 029, 725
South Carolina	5, 168, 975	2, 102, 682	8, 676	297, 104	103, 665	2, 656, 848
Virginia	835, 067	217, 477	6, 513	51, 291	56, 745	503, 041
Total	43, 597, 528	17, 178, 984	248, 912	2, 187, 460	1, 761, 253	22, 220, 919
Percent	100. 0	39. 4	0. 6	5. 0	4. 0	51. 0

[1] Census of Agriculture, 1945, Multiple Unit Operations. Pt. 1, table 1, col. 1, item 4; col. 2, item g; col. 3, item 20; col. 4, item 23; col. 5, item 25; col. 6, item 26.

First, it is significant that only 39.4 percent of the total acreage is in cropland harvested. Second, it is significant that 51 percent of the land is neither harvested cropland, land on which crops failed, idle or fallow land, or cropland used for pasture. The census report describes all other land as follows:

For this report all other land includes all land other than cropland harvested; crop failure; cropland, idle or fallow; and cropland used only for pasture. In this category is included all other land used for pasture or grazing in 1944; all wood lots or timber tracts, natural or planted, cut-over land with young growth whether pastured or grazed or not; and all waste-land, houseyards, barnyards, feed lots, lanes, roads, ditches, etc. Such land reported for multiple units includes all that associated with the home farm and all cropper and tenant subunits of a multiple-unit operation.

There is included in the 22,220,919 acres of all other land, a great deal of land that is susceptible of being developed into good farm land. This fact has a bearing upon the extent to which it would be necessary to displace present plantation occupants, in order to create additional family-type farm-

management units for tenants and sharecroppers occupying subunits of multiple units.

Table 10 shows the number, size, and average value of products of home farms and other subunits on multiple-unit farms by States in the selected area. The significant fact here is the limited acreage embraced in other subunits and the correspondingly small average value of products sold from or consumed within the households on other subunits.

TABLE 10.—*Number, size, and average value of products of home farms and other subunits on multiple farms in 9 Southern States* [1]

State	Home farms	Other subunits	Size		Average value products, 1944	
			Home farms	Other subunits	Home farms	Other subunits
	(1)	(2)	(3)	(4)	(5)	(6)
	Number	*Number*	*Acres*	*Acres*	*Dollars*	*Dollars*
Alabama	13, 347	40, 321	283. 2	42. 2	2, 549	1, 284
Arkansas [2]	8, 480	44, 809	299. 9	24. 7	5, 466	1, 601
Georgia	23, 643	63, 542	257. 3	51. 3	2, 756	1, 649
Louisiana	7, 539	30, 964	313. 9	25. 0	3, 299	1, 272
Mississippi	27, 386	119, 121	262. 0	23. 4	2, 500	1, 319
Missouri [3]	2, 073	5, 903	223. 5	28. 5	8, 014	2, 485
North Carolina [4]	22, 379	64, 762	135. 6	36. 3	2, 686	2, 564
South Carolina	18, 515	50, 356	193. 4	31. 5	2, 481	1, 627
Virginia [5]	2, 864	7, 220	156. 7	53. 5	2, 642	2, 170

[1] Compiled from pt. 3, table 1, U. S. Census of Agriculture 1945, Multiple Unit Operations.
[2] 46 selected counties.
[3] 7 selected counties.
[4] 80 selected counties.
[5] 16 selected counties.

Table 11 shows the number, average number and frequency of subunits in multiple units, and the percent of land in multiple units in the selected area. It will be observed that most of the multiple units have from 2 to 9 subunits. Mississippi has much the largest number of multiple units with more than 20 subunits, and Arkansas ranks second in this respect.

Table 12 shows a comparison of the size and income-producing capacity of subunits in multiple units with the size and income-producing capacity of farm-ownership units in the leading share cropper States in the selected area.

This sharpens the picture from the standpoint of the inadequacy of typical plantation subunits. The average acreage per subunit ranges from 23.4 in Mississippi, the leading plantation State, to 51.3 in Georgia. Still more significant is the fact that the average number of crop acres harvested on subunits ranged from a low of 18.4 acres in Mississippi to 35.6 acres in Georgia. Alabama is the only other State with an average of more than 25 acres of cropland harvested on subunits other than home farms.

The occupant's share of the average value of products produced per subunit shown in column 6 of table 12 is computed by crediting to them the

full value of farm products used in the household and half the value of what is sold. This calculation may be illustrated as follows: In the State of Alabama, $307 out of the $1,284 in column 3, represents the value of farm products used in the household. This leaves $997 as the value of products sold. Typically, one-half of this goes to the share cropper and the other half to the plantation owner. Half of $977 is $489. This plus $307, the value of the home-consumed products, brings the share cropper's total up to $796, which is the figure shown in column 6. The average value of farm products used in the household in 1944 in States other than Alabama was: Arkansas, $225; Georgia, $307; Louisiana, $218; Mississippi, $221; North Carolina, $304; South Carolina, $273.[17]

TABLE 11.—*Number, average number, and frequency of subunits in multiple units and percent of land in multiple units for selected area, census of 1945* [1]

State	Number of subunits in multiple units	Number of multiple units			Average number subunits per multiple unit	Percent of farm land in multiple unit
		With 2 to 9 subunits	With 10 to 19 subunits	With more than 20 subunits		
	(1)	(2)	(3)	(4)	(5)	(6)
Alabama	53, 668	14, 860	435	136	3. 5	28. 8
Arkansas [2]	53, 289	7, 883	726	489	5. 9	32. 9
Georgia	87, 185	25, 923	580	107	3. 3	39. 5
Louisiana	38, 503	7, 373	477	215	4. 8	31. 3
Mississippi	146, 507	25, 612	1, 623	1, 151	5. 2	50. 8
Missouri [3]	7, 976	2, 112	73	9	3. 6	31. 3
North Carolina [4]	87, 141	27, 029	488	62	3. 2	33. 6
South Carolina	68, 871	19, 623	519	59	3. 4	46. 9
Virginia [5]	10, 084	3, 729	23	.....	2. 7	21. 6

[1] Compiled from U. S. Census of Agriculture 1945, Multiple Unit Operations. Col. 7 is taken from bottom of p. IX, Introduction; cols. 2, 3, and 4 are computed or copied from pt. 2, table V; col. 5 is copied from fig. 7, p. XV; col. 6 is copied from fig. 10, p. XVIII.

[2] 46 selected counties.
[3] 7 selected counties.
[4] 80 selected counties.
[5] 16 selected counties.

The figures in column 6, table 12 represent the share cropper's annual income, exclusive of what he may earn off the farm. If he pays for half the fertilizer or for ginning his cotton his net income will be reduced correspondingly. It has been pointed out that only 324,693 of the 440,954 tenants were share croppers. The remainder are obliged to pay some form of rent for their subunits. They usually get more than half the crop, however, and it is not probable that the figures in column 6 would be changed much if rental and other expenses were subtracted and the value of a larger share of the crop were credited.

Comparison of plantation units and farm-ownership farms.—Column 3 of table 12 shows the average size, by States, of farm-ownership farms pur-

[17] Computed from 1945 U. S. Census of Agriculture, table I, pt. III, Multiple Unit Operations.

TABLE 12.—*A comparison of the size and income-producing capacity of subunits of multiple units with the size and income producing capacity of farm-ownership farms in principal share-cropper States* [1]

State	Average size subunits of multiple units		Average size farm-ownership farms		Average value of products sold or consumed in household per subunit	Occupants share of value of products per subunit	Average gross farm income farm-ownership farms	Average gross income farm ownership farms less farm operating expenses	Percent by which col. 8 is greater than col. 6
	Total	Crops harvested	Total	Crop acres					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Acres	*Acres*	*Acres*	*Acres*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	
Alabama	42. 2	28. 5	99	53	1, 284	796	1, 811	983	23. 5
Arkansas	24. 7	20. 9	94	54	1, 601	913	2, 081	1, 285	40. 7
Georgia	51. 3	35. 6	115	64	1. 649	978	2, 073	1, 287	31. 6
Louisiana	25. 0	19. 5	80	48	1, 272	745	2, 359	1, 584	107. 8
Mississippi	23. 4	18. 4	84	44	1, 319	770	2, 087	1, 380	79. 2
North Carolina	36. 3	20. 7	88	36	2, 564	1, 434	2, 968	1, 904	32. 8
South Carolina	31. 5	24. 5	108	57	1, 627	950	2, 281	1, 233	29. 8

[1] Subunits in this table are subunits other than home farms. Sources of data by columns are as follows: Cols. 1, 2, 5, and 6, pt. 3, table 1 of Special Census report on multiple unit operations; Cols 3, 4, 7, and 8, computed from Farm Security Administration report entitled "Status of Tenant Purchase Family in 1944."

chased through 1944. They embrace somewhat more than twice the average acreage of the typical plantation subunit excluding home farms. Similarly, the crop areas on farm-ownership farms run around twice the crop acreage on plantation subunits excluding home farms. Column 7 shows the average gross farm income on farm-ownership farms, and column 8 the farm income remaining after subtracting farm operating expenses. This is the amount available to the farm owner for family living and farm-debt retirement. Column 9 shows the percentage by which column 8 is greater than column 6. The lowest increase is 23.5 percent in Alabama but even in this case the income margin in favor of the farm-ownership borrower is sufficient to pay an annual principal and interest installment on the average farm-ownership loan in Alabama ($4,597).

In Mississippi the average net farm income of the farm-ownership borrower would exceed that of the average share cropper by $366 after a principal and interest installment had been deducted. This might be regarded as a rather trifling addition to a $5,000 or $10,000 income but it is not a trifling addition to a $770 income. Thus it appears desirable from the standpoint of public policy that the plantation system be gradually superseded and replaced by a system of efficient family-type, farm-management units operated by owners. Nothing within the realm of practical achievement that is likely to happen would do more to advance the economic, social, and political welfare of a great region of our country than would such a transition. Its advantages may be summarized as follows:

1. The most significant change that might be anticipated is that already mentioned, namely, converting inadequate and meagerly improved plantation subunits into comparatively efficient farm-management units.

The typical farm-ownership farm is more than double the size of the typical share-cropper unit. It has in general more than twice as much land in crops. The process of conversion would, therefore, involve the replacement of roughly half of the present share croppers in order that the remaining occupants of the land might have adequate units if it were not for the fact that much presently uncultivated land on plantations can be developed into good farm land. The displacement would, therefore, be substantially less than half of the present occupants.

In spite of this fact there would necessarily be a good deal of displacement. If this were an abrupt operation confined to 5 or 10 years it would create confusion and hardship. Spread over 25 or 30 years it would not perceptibly change the rate of migration from plantations which has been constantly in progress over the years. The choice is clearly one between chronic poverty occasioned by share croppers on inadequate units on one hand, and on the other hand, a condition of reasonable well-being made possible by farming adequate units.

This is a case in which we cannot have our cake and eat it too. The road from an unsound agricultural economy to a sound one in the plantation area cannot be traveled without leaving some excess population along the way. In this connection there is great need for a vocational training program designed to fit surplus plantation occupants for other occupations. If, however, we are to refrain from converting inadequate farming units into ade-

quate farm units because it results in displacement of some of the people now on the land we must accept the resulting impoverishment of people and related impoverishment of land as permanent features of our national economy.

2. A second result of converting plantations into efficient family-type, farm-management units operated by owners would be greater security of tenure. Typically, share croppers move frequently. This operates against long-range, land-development programs. A tenant or share cropper is not likely to remain long enough in one place to reap the benefits of improving pasture land or the benefits of a long-range, crop-rotation system. This discourages the growing of legumes and other crops essential to livestock production.

3. A third result of changing from plantation to family farms should be better soil conservation. Not only is there greater opportunity for soil conservation because of more secure tenure—there is a greater incentive for conservation because the land and the improvements upon it belong to those who are doing the conserving.

4. A fourth result should be better communities. A community made up of well-to-do farm home owners is likely to have better health, educational, recreational, and church facilities than a community of share croppers and tenants. It is also likely to have better roads, better public utilities of all kinds, and a generally increased purchasing power.

Subdivision of plantations authorized.—The report of the Tenant Purchase Division for the period April 1 to 30, 1939, contained this statement: "previous reports of the TP (farm ownership) division have emphasized the need for a plan under which large tracts of land can be acquired and subdivided in order to provide an adequate number of desirable family farms at prices in line with earning capacity. The preliminary draft of a plan for subdivision was prepared during April. This preliminary draft was submitted to the Solicitor's office for an opinion as to its legality. The plan contemplates operating under existing legislation. The essence of the plan is that options on tracts to be subdivided will be taken by a representative of the Farm Security Administration subject to assignments to prospective purchasers after subdivision has been effected."

On July 8, 1939, an instruction was issued by the Farm Security Administration containing this general authorization:

> In any county in which TP loans are to be made and in which more satisfactory family-size farms can be obtained by subdivision of large tracts, consideration shall be given to such subdivision. Each such unit shall be capable of independent operation by a single family. The same FSA criteria and standards of size and quality of farm, kind of improvements, etc., shall apply to such units created through subdivision as now apply to family-size farms purchased as such originally.

The attention of the Congress was focused on subdivisions in connection with hearings on the Agricultural Department appropriation bill for 1943 from which the following is quoted:

> Mr. Tarver. I happened to have visited one tract of that type, in Walker County, in Georgia, one of the counties in my Congressional District, during

last summer, where I found a large tract of land had been bought through the recommendations of the county committee and subdivided among a considerable number of tenants, each of whom had a well-equipped dwelling house, each of whom had been successful in his farming operations, and some of whom has established remarkable records for repayments of the amounts which had been loaned, and in nearly every instance considerably in excess of the amounts of the commitments. I do not think there is anything in the law or in the appropriations which have been made by Congress which would negative the possibility of buying up a tract of land and subdividing it in that manner.

The matter of subdivisions was discussed again the following year, when the tenant-purchase item was before the Agricultural Subcommittee of the House Appropriations Committee. At that time, the subdivision on a tract known as the Chapin Plantation in Poinsett County, Ark., was under consideration. The legality of subdivision was not questioned, but the concentration of enough farm-ownership funds in a single county to finance the creation of 75 to 100 farm-ownership farms out of a single large plantation was questioned.

Furthermore, as a result of the discussion, language was included in the appropriation act which prevented concentration of large sums of money in a single county. This restriction, which will be discussed in the chapter on Limitations on Farm Ownership Loans, was retained only 1 year. It so happens, however, that in counties where most of the large plantations are located, there are not only a large number of farmers but also a high percentage of tenancy, so that even under the restrictive clause it would have been possible to consummate subdivisions resulting in as many as 20 farm-ownership farms.

Number and size of subdivisions.—Table 13 shows the number of subdivisions, the number of farm-ownership farms and the average number of borrowers per subdivision, by States, since the authorization to subdivide large holdings into family farms was first issued. Most of the individual subdivisions have resulted in the creation of 10 farms or less, several have resulted in between 25 and 50 farms and 3 have resulted in around 50 or 60 farms.

Subdivision activity declined sharply during the war period for a combination of reasons, the most important of which was Government restrictions on building activities. Existing improvements on subunits of plantations usually fall considerably short of the minimum improvement standards for farm-ownership farms. When a plantation is subdivided a new dwelling and complete new set of farm buildings is usually erected on each of the farms developed from the plantation. It was practically impossible to erect these buildings under war restrictions. Since war restrictions were removed, labor and building materials have been scarce and costly. It is not to be expected that this condition will continue indefinitely. At the earliest practical date the subdivision of plantations in Southern States should be resumed and carried forward as one of the most important if not the most important phase of the farm-ownership program.

Subdivisions in Puerto Rico.—In Puerto Rico the enforcement of the 500-acre land law has made certain large holdings there available for sub-

TABLE 13.—*Number of tracts subdivided, number of farm-ownership farms created and average number of borrowers per subdivision, by States, as of June 30, 1948*

State	Subdivisions	Borrowers	Average of borrowers each subdivision
	Number	*Number*	*Number*
United States total	1, 231	6, 285	5. 1
Kentucky	18	40	2. 2
North Carolina	106	276	2. 6
Tennessee	76	217	2. 9
Virginia	19	52	2. 7
West Virginia	1	2	2. 0
Alabama	151	622	4. 1
Florida	9	33	3. 7
Georgia	192	868	4. 5
South Carolina	30	121	4. 0
Arkansas	121	548	4. 5
Louisiana	128	815	6. 4
Oklahoma	19	66	3. 5
Texas	67	376	5. 6
Arizona	1	2	2. 0
California	5	12	2. 4
Missouri	3	13	4. 3
Mississippi	227	1, 928	8. 5
Washington	1	4	4. 0
Wyoming	1	4	4. 0
Hawaii	21	97	4. 6
Indiana	3	6	2. 0
Puerto Rico	31	181	5. 8
Utah	1	2	2. 0

division into farm-ownership farms. S. L. Descartes, Member of Puerto Rico Planning, Urbanizing, and Zoning Board, in a paper entitled "Land Reform in Puerto Rico's Program of Economic Advancement," [18] says:

Since 1900 a joint resolution of Congress had limited land control by corporations to 500 acres. Despite repeated efforts to have this regulation repealed, the provision was retained and reenacted as article 39 of the Jones Act of 1917, the second and most liberal organic act approved by Congress . . .

In the development of agrarian policy and procedure we have also benefited from the experience derived from the farm-ownership program of the Farm Security Administration inaugurated in March 1938. To June 30, 1945, that agency had lent funds for the creation of 589 individual farms ranging in size from 15 to 142 cuerdas and from $1,700 to $9,000 in value. The Farm Security Administration has supervised the breaking up of four large estates, formerly belonging to sugar mills, into individual farms. In two of these cases this was done with the consent of the Land Authority, for their owners were violators of the 500-acre law and the land was subject to Land Authority action.

The Farm Security Administration does not acquire land directly. Its personnel appraises it, arranges the financial transaction with the original

[18] Ackerman, Joseph, and Marshall Harris: FAMILY FARM POLICY, pp. 285–305, University of Chicago Press, 1946.

owners, and divides it into adequate size farms, that is, farms capable of supporting a farm family at a decent plane of living. The farms are purchased by the borrowers with a loan advanced to them. With the aggregate of loans the borrowers pay the former owner . . .

This program has been very successful in Puerto Rico. Many farmers are ahead in their payments of interest and amortization. The success of the Farm Security Administration plan, which has thus far raised to the level of independent farmers almost 600 former agricultural laborers, can be attributed to several factors: The properties to be divided have been carefully studied and appraised; the size of the farms established has been determined with a practical realization that a minimum acreage is necessary to support a family adequately; borrowers have been meticulously selected on the basis of their capacity to work, the help they can derive from their families, and their previous agricultural experience. The close supervision exercised through the farm and home management plan has also been helpful in overcoming the natural obstacles that are to be found by any novice farm operator.

A satisfactory working relationship exists between the Puerto Rican Land Authority and the Farmers Home Administration. When land controlled by the Land Authority is suitable for subdivision with farm-ownership farms it is made available for that purpose. The volume of farm-ownership loans in Puerto Rico will depend to quite an extent upon the willingness of private lenders to make loans insured by the Farmers Home Administration. If private loans are ultimately made up to the amount authorized to be insured annually subdivision can proceed at a rate which would quite definitely alter the tenure pattern of the island within a decade. If large appropriations or authorizations are made for direct loans subdivision can proceed but at a slower rate.

Subdivisions in Hawaii.—Although the bulk of the best crop land in the Hawaiian Islands is in sugar and pineapple plantations no large subdivision has yet taken place there. There have been a few instances in which it appeared that plantations might be made available for subdivision but for one reason or another they have failed to materialize. Conditions favorable to subdivision appear to be present, however, and it is probable that sooner or later some Hawaiian plantations will be subdivided.

Methods used in subdividing farms.—Any large land deal is fraught with considerable hazard, and subdividing plantations is no exception to the rule. The Farmers Home Administration and its predecessors have worked out very definite procedures which are designed to avoid various pitfalls and safeguard the interests of all parties concerned. Prominent among these safeguards is a system of checks and balances. A subdivision is not a one-man undertaking. Regulations provide that: "The county supervisor will discuss any proposed subdivision with the county committee, the district supervisor, the engineer, and the employee authorized to appraise farms before any definite commitments are made to the prospective seller with respect to utilizing a tract for subdivision purposes."

If a preliminary study results in the conclusion that prospects are favorable, a map of the entire tract is prepared by a competent engineer. Tentative boundaries of the farms to be created are drawn and field checks

are made until crop land, pasture land, timber land, waste land, building sites, etc., are properly divided into adequate and workable farm units. This requires engineering skill and much knowledge of practical farming operations. The entire tract is appraised and each proposed farm is appraised to determine its earning capacity. Often a subdivision creates a need for road construction. This involves negotiations with county officials and allocation of costs among borrowers. Instructions now provide that:

A single option will be taken on the whole tract . . . in the name of a bona fide farm-ownership applicant interested in a unit in the tract proposed for subdivision. In no case will the person in whose name the option is taken be designated as an agent or trustee, or as acting in a similar capacity in connection with the subdivision of the tract or the handling of loan funds. Under no circumstance will an option be taken in the name of a Farmers Home Administration employee.[19]

Very rarely, if ever, is it the case that a large tract of land can be broken down into a number of farms that are equal in size, producing capacity, attractiveness of home site, and over-all value. Mistakes were made in early years in trying to equalize all factors, including prices of the respective farms. Now every effort is made to adjust prices so that each purchaser will get value received and a farm on which he can make a living and pay off his loans. It is evident now that some of the subdivision units originally created are inadequate.

A problem in connection with subdivision is to "line up" as many purchasers as there are farms in the tract. This must be done before the option on the entire tract is taken. Otherwise the seller would be disposing of only a part of his holding and he is usually unwilling to do that. Each purchaser must be satisfied with his purchase. Instructions provide that:

. . . A loan must not be approved until the applicant is thoroughly familiar with the proposed farm unit which he will purchase and has indicated his intention to follow through with the loan and purchase. Applicants must not be persuaded to accept subdivision units in lieu of other farms upon assurances that they will not have to occupy the units or that better farms will be secured for them later . . .

There is no rule for determining which borrower gets which farm. That is a matter of negotiation. Despite the many complications involved, subdivision on the whole has worked out quite satisfactorily. While there would be certain advantages in purchasing land outright, subdividing it and reselling it, there are also advantages in operating in the manner herein described.

Since Mississippi has led all States in the subdivision of plantations, the following statement by T. B. Fatherree, State FHA director for Mississippi, is significant:

The development of efficient farm management units in accordance with our mandate from Congress will of necessity require the subdivision of large tracts, more particularly in the Alluvial or Delta areas of Mississippi. Much of the land is presently in large farms and a considerable amount of it held by absentee owners. When an owner decides for one reason or another to sell his property, he is then usually interested in the sale of all or none.

[19] FHA Instruction 421.4, par. IV A 1. (July 9, 1947.)

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Consequently, the subdivision into efficient units and the making of individual loans is necessary. This creates a good many problems. In many instances, the large buildings on the headquarters unit are too large for family-type farm use; its gin and other facilities, not suitable for family-type operations, sometimes create almost insurmountable problems which will become more acute in the event of expansion in the farm-ownership program. Thus far, the seller has usually been able to find a buyer who will take over the headquarters and a minimum amount of the cropland, primarily for commercial purposes.

It would appear to me that for the most part our subdivisions in the future will be medium size, that is, they will contain 15 to 30 units. This size tract is ordinarily much easier to handle, subdivision is easier, the land is of a more uniform quality, and there is not as much likelihood of a problem in connection with a headquarters unit. In addition to the problems mentioned in connection with a headquarters unit, there is also the problem of the selection of individual units by individual families. There always will be units of varying degrees of desirability, fertility, etc., and, of course, all the families selected want the very best units. As a result, the least desirable units and the weaker families will in a good many instances be brought together. This may mean trouble ahead. Perhaps it is just one of those things with which we will have to struggle, and some day we may find a better way of handling the allocation of units than we have thus far.

Roads and other community facilities are also problems in connection with subdivisions. However, in practically every county we have had the very best cooperation from county officials. As a result, after the families have been in possession a short while, roads and such other facilities as schools, or school bus routes, have been established.

The borrowers themselves very quickly take care of their church needs and on a number of the subdivisions, even the 15- to 20-unit subdivisions, churches have been erected. In at least one instance, a rural parsonage has been built. These community improvements come, however, after considerable adjustments have been made by the borrowers to the farm and community. In the early days, we were of the opinion that a farmers' cooperative might be the answer to the headquarters unit problem, more particularly where there is a store and/or gin involved. We found, however, that this was not true as the borrowers were not ready at the time of occupancy to begin to work with each other in such an organization which required as much mutual trust, confidence, and cooperation as does a farmers' cooperative.[20]

Borrowers Are Not Expected To Invest More in Farm Ownership Farms Than Such Farms Are Worth From an Earning Capacity Standpoint

Farms are appraised.—When an owner offers a farm for sale it is to be expected that he will try to get as much for it as he can. The buyer, on the other hand, naturally seeks to avoid investing more in a farm than it will actually be worth to him. The seller may never have sold a farm before. The buyer may be making the one and only farm purchase of his lifetime. Even if both buyer and seller were experienced in the matter of farm real estate transactions, agreement as to what constitutes a fair price for a farm would by no means be an easy matter. For these and other reasons a system of appraising farms has been evolved which is designed to provide a factual

[20] Letter from T. B. Fatherree to Paul V. Maris, dated October 20, 1948.

basis for farm evaluation. Practically all agencies engaging in farm mortgage financing use some sort of appraisal system. In general, they are based upon a very simple principle, namely, that by estimating what a farm is likely to produce, what the products can be sold for, and what the operating and maintenance expenses will be, it is possible to determine what that farm is worth.

With some lenders market value may outweigh income-producing value. In the case of the Farmers Home Administration earning capacity value is the primary consideration because the borrower's success depends upon his investment being kept within limits consistent with the net debt-paying capacity of the farm.

Appraising not an exact science.—If all the factors entering into farm appraising were fixed and unchangeable, farm evaluation would be an exact science. It so happens, however, that practically all factors entering into the process are variable factors. The productive capacity of soil is not constant, seasons change, prices fluctuate, costs of production vary as new machinery, new equipment, and new methods are developed. Drought, floods, tornadoes, sickness, accidents, and death are always possibilities. It is evident, therefore, that appraising farms is not an exact science. It would be folly, however, to discard the appraisal process for that reason. It is the borrower's best guarantee that he is not paying too much for a farm. It helps the seller in setting a price that will compensate him fairly for the property he is conveying.

The original Bankhead-Jones Farm Tenant Act did not specifically mention farm appraisals. It did provide that loans should not be "in excess of the amount certified by the county committee to be the value of the farm." In order that county committee members might render their judgments as to the value of farms with a full knowledge of all pertinent facts, the Farm Security Administration at the time the farm-ownership program was inaugurated instituted an appraisal system which has been perfected over the years in the light of experience gained.

When the Bankhead-Jones Farm Tenant Act was amended in 1946, it was provided that "the farm shall be appraised by competent employees of the Secretary, thoroughly trained in appraisal techniques, and the appraisal shall be made available to the county committee and the Secretary for their guidance in determining the value of the farm as specified above." This amendment merely gave legal sanction to an established administrative policy and practice.

Appraisal reports are aids to judgment.—It will be noted that the legal provision is so stated that the findings of the employees of the Secretary who are "thoroughly trained in appraisal techniques," are not in themselves conclusive. They are available for the guidance of the county committee which certifies as to value of the farm. The committee may, at its discretion, certify a greater or lesser value than that arrived at by the appraiser. "The Secretary," who in this instance is represented by a field representative of the Farmers Home Administration, has before him the report of the appraiser as well as the certification of the committee when he approves or disapproves the loan. If it is the judgment of the field representative that

the committee has digressed too far from the value indicated by the appraiser's findings, it is his privilege, in fact his responsibility, to disapprove the loan. Thus, the appraiser's evaluation becomes an important but not an arbitrary or inflexible measurement of value.

If this were not the case, the judgment of the appraiser would outweigh and override the informed judgment of county committees. There have been advocates of such a policy but the writer has not been one of them. He has opposed subordinating committee judgment to the findings of technical appraisers. To do so would tend to make "rubber stamps" of county committeemen, and it is not probable that the county committee system could be maintained at its high level of usefulness under such a policy. The writer's philosophy on this point is well expressed in the following statement quoted from the current FHA Instruction on the earning capacity appraisal of farms.

> Estimates and formulas should be used as aids to, not as substitutes for judgment in determining how much it is safe and wise to pay for a farm. In other words, normal earning capacity value should represent the best judgment of persons trained in the appraisal techniques, who have used estimates and formulas wisely in arriving at their conclusions. Normal earning capacity value, therefore, should be a judgment determination . . . and not merely a mathematically computed figure.[21]

Methods of appraising.—The form used by the Farmers Home Administration in determining the earning capacity value of farms is reproduced on the following pages. A careful study of this form will reveal the many factors to be taken into account in evaluating a farm. There are about a dozen important items of general information shown on the first page of the form: The location of the farm; the kind of roads leading to it and characteristics of the community in which it is situated; the telephone, R. F. D., power line, and milk route services; the condition of the farm as viewed from many angles; the natural resources in the form of minerals, timber, oils, gravel, etc.; the ownership history of the farm; taxes levied against the farm; the water resources for domestic purposes and livestock use; farming hazards of one kind and another. The second page will reveal the manner in which productive capacity is determined. The three tables on that page show the probable production and sale of crops, livestock, and livestock products. The amount of feed likely to be consumed on the farm is indicated by figure 16 (table 4) while figure 16 (table 5) shows the manner in which net income is estimated. The fourth page of the form provides space for describing needed building and land improvements and indicates the manner in which the data on previous pages is translated into "normal earning-capacity value, maximum purchase price, and maximum refinancing price."

While the theory of farm appraisal is quite simple and understandable, its practical application requires extensive experience, specific information, and a high degree of specialized skill. In fact, the experience of an appraiser should be continuous as well as extensive. A good appraiser can quickly get out of touch with the current situation and become hazy with

[21] FHA Instruction 422.1, II A (last paragraph) (April 22, 1947).

respect to matters which affect the accuracy of his determinations. This is why only well-qualified and especially trained employees of the Farmers Home Administration are permitted to make farm appraisals.

The most controversial point in connection with the Farmers Home Administration appraisal system is the schedule of commodity prices used in

FORM FHA-596
REV. 7-19-43

UNITED STATES
DEPARTMENT OF AGRICULTURE

BUDGET BUREAU NO. 40-R1054.3.
EXPIRES DECEMBER 31, 1943.

FARMERS HOME ADMINISTRATION

EARNING CAPACITY REPORT

(SEE FHA INSTRUCTION 422.1)

APPLICANT'S NAME ..... STATE .....
ADDRESS ..... COUNTY .....
VENDOR'S NAME ..... CASE NO. .....
ADDRESS ..... TYPE OF LOAN. ☐ TP ☐ FE ☐ FD

GENERAL INFORMATION

A. LOCATION OF FARM:

HOW MANY MILES AWAY IS THE NEAREST TOWN? .....
IN WHAT DIRECTION? .....
NAME OF TOWN .....
HOW MANY MILES AWAY IS THE NEAREST SCHOOL? .....
NAME OF SCHOOL .....
HOW MANY MILES AWAY IS THE NEAREST CHURCH? .....
NAME OF CHURCH .....

B. ROADS AND COMMUNITY:

IN WHAT CONDITION ARE ROADS IN COMMUNITY? .....
ON WHAT KIND OF ROAD IS FARM? .....
(DIRT, GRADED DIRT, GRAVEL, HARD-SURFACE)
NUMBER OF MILES TO NEAREST GRAVEL OR HARD-SURFACE ROAD .....
HAS VENDOR A RIGHT-OF-WAY TO FARM? .....
THE FARMING DISTRICT IS (E, G, F, OR P) .....
WHAT TYPE OF FARMING IS IN COMMUNITY? .....
ARE THERE TENANT-OPERATED FARMS IN COMMUNITY .....
(NO, FEW, MANY)

C. FARM SERVICES: (CHECK)

☐ R. F. D. ☐ PHONE ☐ POWER LINE ☐ MILK ROUTE
INDICATE AVAILABILITY OF ELEVATORS, GINS, MARKETING FACILITIES: .....

D. CONDITION OF FARM:

THIS FARM AS COMPARED WITH THE AVERAGE OF THE COMMUNITY
WITH RESPECT TO LOCATION IS ☐ AVERAGE ☐ BETTER ☐ POORER
" DESIRABILITY IS ☐ " ☐ " ☐ "
" SALABILITY IS ☐ " ☐ " ☐ "
" RENTABILITY IS ☐ " ☐ " ☐ "
FARM IS NOW OCCUPIED BY .....
FARM IS LEASED TO .....
DATE LEASE EXPIRES ..... IS LEASE IN WRITING? .....
ON WHAT BASIS IS ANNUAL RENT? (SHARE, CASH, STANDING) .....
AMOUNT OF ANNUAL RENT (INDICATE AMOUNT OF CASH, SHARES, OR QUANTITY OF PRODUCT) .....
CASH EQUIVALENT AT CURRENT PRICES, $ .....
NOXIOUS WEEDS (KIND AND PERCENT OF INFESTATION) .....
CONDITION AND SUITABILITY OF FENCES .....

E. CONDITION OF LAND:

HOW IS THE APPARENT GENERAL FERTILITY? (E, G, F, OR P) .....
ACRES: TERRACED ..... : LEVELED .....
CONDITION OF TERRACES .....
ACRES NEEDING: TERRACING ..... : LEVELING ..... : CONTOURING .....
DRAINAGE: (ACRES) TILE ..... : OPEN DITCH ..... :
NATURAL ..... : NEEDING DRAINAGE .....

E. CONDITION OF LAND—CONTINUED:

NAME OF DRAINAGE OR RECLAMATION DISTRICT .....
IRRIGATION ACRES IRRIGATED ..... : NAME OF IRRIGATION DISTRICT
(IF FARM IS LOCATED IN DRAINAGE, IRRIGATION, OR LEVEE DISTRICT, ATTACH SPECIAL REPORT, FHA-596A.)

F. NATURAL RESOURCES: (DISCUSS MINERALS, TIMBER, OIL, GAS, GRAVEL, ETC.) .....
(IF MINERAL, TIMBER, OR OTHER RIGHTS ARE LEASED, RESERVED, OR EXCEPTED, ATTACH SPECIAL REPORT, FHA-596A.)

G. OWNERSHIP HISTORY:

YEAR ACQUIRED BY VENDOR .....
HOW ACQUIRED .....
PURCHASE PRICE, $ .....
NUMBER TIMES FARM HAS CHANGED OWNERSHIP DURING PAST 10 YEARS .....
DISCUSS .....

H. TAXES:

ASSESSED VALUE, $ .....
ASSESSED ON WHAT PERCENT OF VALUE ..... %
REAL ESTATE, TAXES FOR 19..... $ .....
MILL LEVY .....
SPECIAL IMPROVEMENT DISTRICT TAXES, $ .....
DELINQUENCIES, IF ANY .....

I. WATER:

	FARMSTEAD		PASTURE
	FAMILY USE	LIVESTOCK	
SOURCE			
DEPTH OF WELL			
CONVENIENCE			
ADEQUACY			
DEPENDABILITY			
QUALITY			

J. FARMING HAZARDS: (CHECK IF PRESENT)

☐ OVERFLOW ☐ HAIL ☐ UNTIMELY FREEZES ☐ CROP DISEASES
☐ HARDPAN ☐ ALKALI ☐ WIND EROSION ☐ DROUGHT
☐ WATER EROSION ☐ INSECT PESTS ☐ GRAVEL (DROUGHTY) SUBSOIL
OTHER (SPECIFY) .....
DISCUSS HAZARDS CHECKED: INDICATE EXTENT AND FREQUENCY .....

K. SUITABILITY FOR PRODUCTION OF FAMILY SUBSISTENCE AND SUPPLIES:

16—33701-4

FIGURE 14

estimating farm income. These price schedules were not questioned seriously between 1937 and 1942 but year by year as farm real estate prices have mounted there has been an increasing demand for the use of higher commodity prices in determining farm real estate values.

Developing price schedules.—On October 20, 1938, the Director of the Farm Ownership Division sent to all FSA regional directors a statement entitled, "Appraisal of Tenant Purchase Farms." The letter transmitting this document instructed farm-management specialists in regional offices

PAGE 2

NOTE.—Determinations of production, income, and expenses in tables 1 to 5, inclusive, are based on estimates assuming averagemanagerial practices and typical cropping and livestock systems for the farm under consideration and approved long-time prices for the area.

TABLE 1.—DESCRIPTION AND PRODUCTIVITY OF LAND ON FARM

CLASS OF LAND	ACRES	SOIL TYPE	DEPTH OF TOPSOIL	KIND OF SUBSOIL	TOPOGRAPHY: ACREAGE				ESTIMATED AVERAGE YIELD PER ACRE OF PRINCIPAL CROPS		
					Level	Gently Rolling	Rolling	Steeply Rolling			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Cropland											
TOTAL CROPLAND		x x x x x x	x x x	x x x x x					x x x	x x x	x x x
Permanent pasture									x x x	x x x	x x x
Woodland									x x x	x x x	x x x
Farmstead, roads, etc.											
TOTAL ACRES		Total carrying capacity of permanent pasture ____ animal units; for ____ months.									

Average county yields of principal crops _____

TABLE 2.—CROPS: PRODUCTION AND SALES

CROPS	MAN WORK-DAYS	ACRES	YIELD PER ACRE	TOTAL PRODUCTION			AMOUNT USED FOR FARM AND HOME			SALES		LANDLORD'S SHARE	
				Amount	Price Per Unit	Value	Seed	Food	Feed	Amount	Value	Percent	Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
					$	$					$		$
Permanent pasture			Animal Units @										
Woodland													
Farmstead, roads, etc.			x x x	x x x x	x x x	x x x x	x x x	x x x	x x x	x x x x	x x x x	x x x	
TOTAL			x x x	x x x x	x x x	$	x x x	x x x	x x x	x x x x	$	x x x	$

TABLE 3.—LIVESTOCK AND LIVESTOCK PRODUCTS: PRODUCTION AND SALES

KIND OF LIVESTOCK OR LIVESTOCK PRODUCT	MAN WORK-DAYS	NUMBER OF ANIMALS	UNIT OF PRODUCTION	PRODUCTION PER ANIMAL	TOTAL PRODUCTION	FARM USE	HOME USE	SALES		
								Amount	Price	Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
									$	$
TOTAL		x x x x	x x x x	x x x x	x x x x x	x x x x	x x x x	x x x x	x x x x x	$

TOTAL MAN WORKDAYS _____ (Crops and livestock).

16—33761-4

FIGURE 15

and regional tenant-purchase chiefs to prepare, "after conferring with representatives of the State college, a list of long-time average prices of the various agricultural commodities to be used in the area assigned to the appraiser in calculating the landlord's net share." A month later (November 23, 1938) the director of the division transmitted to all regional offices, "tables of some important farm prices in your region for your consideration

in connection with the preparation of prices for use in determining the earning capacity of farms." [22]

Combating inflation.—Official records contain evidences of aggressive action in combating the dangers of inflation in land prices. In addressing a

PAGE 3

TABLE 4.—FEED CONSUMED

KIND OF LIVESTOCK	NUMBER OF ANIMALS	KIND AND QUANTITY OF FEED—GRAIN (BU.); CONCENTRATES (LB.); ROUGHAGES (T). (Write in name of feed at top of column)							PASTURE*	
									Acres	Period
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Total feed consumed										
Furnished by farm										
Purchased										
Price per unit		$	$	$	$	$	$	$	$	
Cost of feed purchased		$	$	$	$	$	$	$	$	x x x x x
TOTAL COST OF FEED PURCHASED		x x x	x x x	x x x	x x x	x x x	x x x	x x x	$	

*Indicate: T—Temporary; P—Permanent.

TABLE 5.—NET INCOME

(1)	Total Farm (2)	Total Farm (3)	Landlord's Share (4)	Landlord's Share (5)
Income:				
Crop sales (from table 2, "Total Farm," col. 12, "Landlord's Share," col. 14)	$		$	
Livestock and livestock product sales (from table 3, col. 11)				
Government payments				
TOTAL CASH FARM INCOME	x x x x x	$	x x x x x	$
Deductions:				
Seed purchased	$		$	
Fertilizer, lime				
Spray material				
Threshing, ginning				
Hired labor				
Depreciation, work stock, ... head @ $			x x x x x	
Feed purchased (from table 4)				
Miscellaneous livestock expense				
Machinery depreciation, repair and hire			x x x x x	
Tractor expense and hire			x x x x x	
Auto and truck expense, farm use			x x x x x	
Buildings and improvements, repairs and depreciation, $..... @ .....%				
Taxes, real estate				
Taxes and insurance, personal property			x x x x x	
Insurance, buildings, $..... @ .....¢ per $100				
Interest, operating capital, $..... @ 5%			x x x x x	
Cash expense, family living			x x x x x	
TOTAL DEDUCTIONS	x x x x x	$	x x x x x	$
NET FARM INCOME AVAILABLE FOR PAYMENT ON FO LOAN	x x x x x	$	x x x x x	$

16—33761-4

FIGURE 16

national conference of the Farm Security Administration officials at French Lick, Ind., July 15, 1943, the Director of the Farm Ownership Division said:

We have now probably reached the point of having to face squarely up to the question of what we are going to do when we can't buy farms reasonably

[22] With minor modifications average prices prevailing during the 10-year period 1930–39 were used in developing these tables.

within the limits of earning capacity values based on long-time prices. An arbitrary and inflexible policy with no elasticity about it at all would doubtless be unwise. The high incomes of the present with price supports for a number of commodities that carry over for a time after the war appears to

PAGE 4

COMMENTS ON BUILDINGS
(ADEQUACY, APPROPRIATENESS, ETC.)

RECOMMENDED LAND IMPROVEMENTS

NARRATIVE

(Discuss favorable and unfavorable factors about the farm, such as undesirable topographic features, shelter belts, timber stands, and other pertinent factors)

RECOMMENDED VALUES

RECOMMENDED VALUES	TP LOAN	FE LOAN			FD LOAN
		COMBINED UNIT	ORIGINAL OWNED TRACT	TRACT TO BE ADDED	
Normal earning capacity value	$	$	$ xxxxxxx	$ xxxxxxx	$
Maximum purchase price		xxxxxxx	xxxxxxx		xxxxxxx
Maximum refinancing price	xxxxxxx	xxxxxxx		xxxxxxx	

Date inspected: ....., 19..... (Signed) .....

Date this report prepared: ....., 19..... .....

U. S. GOVERNMENT PRINTING OFFICE 16—33761-4 (Title)

FIGURE 17

justify some concessions but not enough to depart in general from the principle of earning capacity values determined by the application of long-time prices.

Three years later at a national conference of Farm Security Administration officials held in Washington, D. C., the following statement was made by the Farm Ownership Director:

As we all know, the farm real estate price situation is the biggest economic factor influencing the volume of farm-ownership loans. At the conference of the farm-ownership specialists held here in July a year ago, we concentrated especially upon this problem. We departed from traditional practice and called in expert witnesses from the Department of Agriculture and outside of the Department of Agriculture to advise us on this subject. We were trying to determine whether we should relax the policy of restricting farm-ownership loans to the purchase of farms obtainable at prices consistent with earning capacity based on long-time average prices. We decided at that time not to change the policy in any essential manner. It was, however, agreed that we would enlist the aid of price authorities in the Department of Agriculture in revising basic long-time commodity prices which we use in determining earning capacity. You have recently received the list of revised prices. They are on the average about 7 percent above previous price schedules. This is all we contemplated doing in the way of proposing changes in our policy related to high real estate prices.

Specialists consulted.—The "witnesses from the Department of Agriculture and outside the Department" referred to in the above quotation who participated in the conference of farm-ownership specialists held in Washington, in July 1945, were, O. C. Stine, head of the Division of Statistical and Historical Research, Mark Reagan, senior agricultural economist, and F. F. Elliott, chief agricultural economist, all of the Bureau of Agricultural Economics, E. C. Johnson, in charge interdepartmental land use coordination, C. W. Warburton, Deputy Governor, Farm Credit Administration, and John D. Black, professor of agricultural economics, Harvard University. The views of these specialists and of members of the Farmers Home Administration staff are recorded in the Journal of Proceedings of the 1945 Annual Farm Ownership Conference.

The long-time farm commodity prices used in earning capacity appraisals and the current market prices as of that date (May 1947) are shown in table 14. The long-time prices are those issued after revisions were made which resulted in an over-all 7 percent increase and they have continued in effect to the present date (January 1950). They are weighted national averages from which commodity prices in the respective States may vary upward or downward.

Determination of price schedules centralized.—Although the price schedules issued by the national office in 1938 were for the information of field employees who were responsible for developing price schedules for States and for areas within States, that policy was changed by an amendment to FSA Instruction 622.3 issued on August 7, 1943, which provided that "in the preparation of the earning capacity report, long-time prices for farm commodities sold by farmers approved by the national office will be used . . . That regional farm-ownership chief will be responsible for preparing a schedule of long-time prices by States, and, perhaps for applicable areas within States, for use by assistant farm-ownership specialists, appraisers, FSA supervisor and others in the regional office who will need them.

This schedule will be based on price data furnished by the national office and will be submitted to the Farm Ownership Division in Washington for approval . . . The 8-year period 1930–37 will be used as the base period

in all price determinations, except for a few commodities for which it is not applicable. If a base period other than 1930–37 is used this will be indicated on the original schedule submitted to the Farm Ownership Division in Washington."

In estimating the earning capacity of farms, cost items are just as important as income items. It would be entirely inconsistent to use long-time average prices for farm commodities sold and current prices for cost items. The Farmers Home Administration instructions have provided that the cost

TABLE 14.—*Long-time farm commodity prices used in earning capacity appraisals and current market prices as of May 1947* [1]

Item	Long-time prices	Current prices, May 1947
Wheat (bushel)	$0.75	$2.39
Corn (bushel)	.63	1.59
Oats (bushel)	.31	.89
Rye (bushel)	.55	2.45
Barley (bushel)	.48	1.42
Hay, tame, loose (ton)	9.50	16.80
Cotton (pound)	.10–.12	.33
Cottonseed (ton)	25.00	83.70
Potatoes (bushel)	.70	1.53
Sweet potatoes (bushel)	.85	2.33
Soybeans (bushel)	.88	3.01
Peanuts (pound)	.033	.10
Flaxseed (bushel)	1.60	6.01
Rice (bushel)	.75	2.33
Sugar beets (ton)	6.00	[2] 11.20
Beans, dry, edible (hundredweight)	3.50	12.40
Peas, dry, field (hundredweight)	2.00	4.84
Tobacco (pound)	.18	.45
Sheep (hundredweight)	3.80	8.78
Beef cattle (hundredweight)	6.35	18.60
Veal calves (hundredweight)	7.50	20.10
Hogs (hundredweight)	7.25	22.90
Lambs (hundredweight)	7.80	19.80
Wool (pound)	.24	.39
Butterfat (pound)	.29	.63
Chickens (pound)	.15	.28
Eggs (dozen)	.20	.41

[1] Agricultural appropriation bill for 1948, p. 1179, exhibit B.
[2] Average 1946.

items should be consistent with the items in the long-time price schedule, but no specific lists of cost items have been issued by the national office. With reference to cost schedules, the current instructions provides "that a State schedule of principal cost items used in appraisal work will be prepared by the State director and issued as a State instruction. These cost items should be consistent with the long-time prices used for farm commodities. The State director will review this State instruction from time to time to make any revisions required by changing conditions." [23] Since State in-

[23] FHA Instruction 422.1, V, B. (Oct. 29, 1948).

structions are subject to prior approval in Washington, centralized administrative control is now exercised over both income and expense items used in appraising farms.

Divergent views.—There is by no means universal approval of current price schedules inside or outside the Farmers Home Administration. There are those who contend that it is wholly unrealistic to seek to operate on the farm real estate market as if it were an isolated island surrounded by a sea of high commodity prices. It is their view that if one were limited to a 1930–37 food budget, his family would be reduced to half rations and a 1930–37 clothing budget would not more than half clothe them. Similarly, it would appear that one who goes forth to buy a farm carrying only a 1930–37 measuring stick for evaluating farms is likely to buy no farm at all. It is true that many who try to buy on this basis fail to succeed. But here and there a farm is available for purchase at a price arrived at by the use of price and cost schedules used by FHA appraisers. Such farms are really bargains. At a conference of FHA employees held in Washington in June 1947, the author said:

When able and informed persons recommend suspension of tenant-purchase operations for the time being because of high real estate prices, one cannot avoid being impressed. On the other hand, it is difficult to brush lightly aside the completely opposite argument often advanced with respect to veterans, namely, that the present happens to be the time when veterans must be absorbed into the Nation's economy—now is when veterans want farms, not 5 years from now, or 10 years from now. Congress has made provisions for aiding veterans in acquiring farms and deliberately deleted the word "normal" from the original GI bill of rights in order to permit purchases. The veteran who turns his back on agriculture because of high land prices and seeks to become established in some nonagricultural business is confronted with high prices there also . . .

There is a qualifying point in this whole situation. It is that our policies are executed by men who rely upon judgment. We think our committeemen are well-endowed with this attribute. But judgment is not exercised in a vacuum. After a series of years such as we have had, committeemen will certify farms at higher prices than they would following a series of depression years. We are aware of this. We think that this factor plus the adjustment in long-time prices is resulting in about the proper amount of relaxation.

Real-estate prices influence appropriations.—The tendency of the Congress to reduce appropriations for farm-ownership loans when farm real-estate prices advance rapidly is reflected by the appropriation record. The Bankhead-Jones Farm Tenant Act authorized appropriations not to exceed 10 million dollars for the fiscal year ending June 30, 1938, not to exceed 25 million dollars for the fiscal year ending June 30, 1939, and not to exceed 50 million dollars for each fiscal year thereafter. Farm real-estate prices were at a relatively low and stable level during these 3 years and the maximum appropriations authorized by law were made for the fiscal year 1938 and the fiscal year 1939. A 40-million-dollar appropriation was made for 1940. This was increased to the maximum legal authorization in 1941 and the maximum was authorized again in 1942. Farm real-estate prices started

upward at this time and Congress reduced the appropriation to $32,500,000 for 1943, 30 million dollars for 1944 and 15 million dollars for 1945.

A new factor came into the picture in 1946. Although farm real-estate prices were still mounting, a strong demand for farm-purchase loans for war veterans was beginning to manifest itself. It was largely this fact which resulted in a 50-million-dollar appropriation for 1946 and another in like amount for 1947. The appropriation for farm-ownership loans was reduced 15 million dollars in 1948 partly because a growing concern in Congress over the rising farm real-estate prices and partly because it was assumed that private lenders would supply the demand for loans in conformance with the new farm mortgage guarantee amendment to the Bankhead-Jones Farm Tenant Act. Furthermore, all the funds appropriated for 1946 and for 1947 had not been loaned. Sums unobligated in those years were respectively $22,795,754 and $4,532,193.

Farm-ownership program is anti-inflationary.—In the course of hearings before the subcommittee of the committee on appropriations of the United States Senate on a bill making appropriations for the Department of Agriculture for the fiscal year ending June 30, 1948, Senator Brooks who was presiding, said: "There seems to be a feeling that land is excessively high now. . . . I know that in Illinois, recently, farms sold for over $400 an acre which had previously sold for $100 an acre. Probably there will come a time when that land will go down considerably again. That is the concern, I think, of many people about the question of land value at the moment." In response to this comment, Dillard B. Lasseter, Administrator of the Farmers Home Administration, cited examples of the anti-inflationary influences of farm-ownership lending operations and indicated that when a loan is turned down by the agency because a farm is overpriced other potential buyers then refuse to pay the excessive price.[24]

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[24] Pp. 1174–1181 of report of Senate Hearings on Department of Agriculture Appropriations for fiscal year 1947–48.

Chapter VIII

UPPER AND LOWER LIMITS ON FARM OWNERSHIP LOANS

The Original Bankhead-Jones Farm Tenant Act Fixed Lower Loan Limits More Definitely Than Upper Loan Limits

In thinking of limits on farm-ownership loans one is prone to think only of upper limits. Certainly, farm-ownership loans can be too large to conform to the purposes for which they were authorized. It is quite as possible, on the other hand, to "violate the law," and harm its intended beneficiaries by lending them too little as by lending them too much. In fact, it is probable that more harm has actually been done to farm-ownership borrowers, unintentionally to be sure, by underlending than by overlending.

It must be recognized that in the program under consideration, fixing upper and lower limits on loans essentially fixes upper and lower limits on the earning capacity of farms. That would not be true if farms tended to have earning capacities in excess of the prices paid for them but at least between 1941 and 1950 they did not tend to do so. When farms are purchased on the basis of appraisals made by competent appraisers, a $5,000 farm is likely to be worth $5,000 and a $10,000 farm is likely to be worth $10,000. Nor would the close relation between the amount of the loan and the value of the farm exist if an individual borrower were free to supplement his loan by any amount which his inclination or means might dictate. He is not free to do so, however. There is a limit on what he can invest. Furthermore, if he possesses sufficient financial resources to enable him to add substantially to the investment made possible by the farm-ownership loan, this fact of itself makes him ineligible for such a loan. As heretofore pointed out, very few borrowers have made down payments of any consequence. In the farm-ownership program, therefore, loan limits have much to do with the kind of farms on which borrowers are established. If a loan is too large the farm purchased with the proceeds of the loan will usually be larger than a family-type farm as defined by the Farmers Home Administration. If the loan is too small the farm will usually be smaller than an efficient family-type farm-management unit. It is quite evident, therefore, that upper and lower loan limits or investment limits are exceedingly important. If they are unwisely established the very purposes for which the Bankhead-Jones Farm Tenant Act was passed are likely to be defeated.

Strangely enough the act as it was passed in 1937 contained no specific maximum loan limitation. The discussions of the act while it was being debated in the Congress and the stated purposes of the act appeared to warrant the assumption that an upper limit should be observed and that it should be one which would preclude any likelihood of Government par-

ticipation in setting borrowers up in the farming business in a big way. On the other hand, the original act did provide that, "No loan shall be made for the acquisition of any farm unless it is of such size as the Secretary determines to be sufficient to constitute an efficient farm-management unit."

The legal provision quoted above would be violated if such rigid loan limits were imposed that efficient farm-management units could not be purchased within those limits. On the other hand, prior to 1946, no specific chapter or verse could be cited in the basic act which placed an upper limit on loans. The original Bankhead-Jones Farm Tenant Act, therefore, fixed lower loan limits more definitely than it fixed upper loan limits.

Upper Loan Limit Established Administratively in 1938 Was Maintained With Minor Modifications Until 1948

It was pointed out in chapter III that the Farmers Home Corporation Board established a $12,000 upper limit on farm-ownership loans at a meeting held on April 6, 1938. The circumstances giving rise to the action and the thinking back of it are quite fully set forth in that chapter. FSA Instruction 631.1 issued August 12, 1938, gave effect to the Board's policy in these words: "No tenant-purchase (farm-ownership) loan shall be made in excess of $12,000 in any county." Clearly, this was a limit on the loan. It was not a limit upon the total investment in the farm. A borrower financially able to do so could, under the policy as stated, put some of his own money into the farm and thus make a purchase involving a total investment somewhat in excess of $12,000. Of course, if he had more than a thousand dollars or two of his own money to invest that would usually render him eligible for a loan from other sources and thus, under the policy administratively adhered to even before it was made legally mandatory in 1946, render him ineligible for a farm-ownership loan. Actually, therefore, a $12,000 limit on loans amounted roughly to a $14,000 upper limit on the total investment in a farm. In reality very few borrowers took advantage of the privilege of buying a farm costing more than $12,000 during the 2 years or slightly more that they were permitted to do so.

On November 22, 1940, the privilege of borrowing up to the loan limit and then adding personal funds was withdrawn. On that date the regulation on upper loan limits was revised to read: "No TP (FO) loan shall be made for the purchase of a farm, the total cost of which, including any down payment by the borrower and all necessary repairs and improvements, exceeds $12,000." Clearly, this was a limit on investment. It was made necessary by the Solicitor's ruling on the meaning of the amendment, referred to below, which was included in the Agricultural Appropriation Act for the fiscal year 1941.[1] It reflected a view that the kind of farm established with the proceeds of a farm-ownership loan is the thing that matters quite as definitely as the amount of the loan itself.

This more stringent limit on the amount a borrower could invest in a farm, established in 1940, remained in effect until 1948. The change made in 1948 and the reason for it will be explained following a discussion of legal limitations which were imposed for several years by provisions in annual

[1] Solicitor's Opinion No. 2683, August 15, 1940.

appropriation acts. It so happens that in most counties the limitations imposed by annual appropriation acts were much lower than the administration limitations. Interest naturally centered in the more restrictive of the two limitations. It was as if a horse staked out to graze were tied by two ropes—one short and one long. The limits of his grazing area would, of course, be determined by the short rope. Until that were removed there would be little opportunity to judge whether the longer rope would allow an ample grazing range.

For Six Consecutive Years Annual Appropriation Acts of Congress Fixed Upper Loan Limits

The Agricultural Appropriation Act for the fiscal year beginning July 1, 1940, and ending June 30, 1941, contained the following restriction with respect to funds made available for farm-ownership loans:

> . . . which sum shall not be used for making loans under the terms of said act for the purchase of farms of greater value than the average farm unit of 30 acres and more in the county, parish, or locality in which such purchase may be made.

The three succeeding appropriation acts contained identical language. During the first two fiscal years, when statistics from the 1940 farm census were not available, the appropriation act provided that the average value of farms 30 acres and more in size "may be determined in accordance with such regulations as may be promulgated by the Secretary of Agriculture." In furtherance of this provision the Secretary used the 1935 census data. During the fiscal years 1943–44 and 1944–45 the appropriation acts read: "which value shall be determined solely according to statistics of the farm census of 1940." Since there was not much difference between the average value of farms 30 acres and more in size in 1935 and in 1940 there was not much change in the limit during the 5-year period under discussion.[2]

The appropriation act for the fiscal year 1945–46 provided that ". . . no loan, excepting those to eligible veterans, shall be made in an amount greater than 15 per centum above the census value of the average farm unit of 30 acres and more in the county, parish, or locality where the purchase is made, as determined by the 1940 farm census. . . ."

This appeared to raise the loan limit 15 percent but unfortunately, it did not. It actually lowered the limit substantially. The reason is that the limit in effect for the five fiscal years 1940–41 through 1944–45 was a purchase price limit, that is a limit on the loan "for the purchase of farms." The limit for the year 1945–46 was on the total loan. Thus, it had been legally possible, and the common practice under Farm Security Administration policy to confine loans for farm purchases to the average values of farms 30 acres or more in size in the respective counties as specified in the appropriation acts for 5 years but to supplement those loans by amounts necessary to provide needed improvements on farms. The improvements in some sections of the country cost more than the land itself. After the lan-

[2] Computations from 1935 and 1940 Census of Agriculture data indicate that the average value of farms 30 acres and more in size in the United States was $6,414 in 1935 and $6,901 in 1940. See p. 74, pt. 11, Hearings on Agricultural Department Appropriation Bill for 1942.

guage was changed it was no longer possible to buy farms within the purchase-price limit and then improve them with loan funds over and above the purchase-price limit.

This last tightening up on loan limits might possibly be regarded as a blessing in disguise. Whereas the purchase-price limits established by previous appropriation acts had been so severe in many counties as to amount to virtual program suffocation, the new loan limit spelled complete and total program strangulation in about half of the counties of the United States. Essentially it precipitated a crisis of life-or-death proportions. The counties most drastically affected were the counties in greatest need of farm-ownership loans. If the program could not operate in them the reasons for it operating at all were very greatly diminished.

The efforts of FSA's administrative officials to gain relief from this situation were, as reports of hearings before appropriating committees will reveal, somewhat mild during the first 3 years but they increased in intensity as the harmful effects of the restrictive provision became more and more apparent and as administrative controls passed into new hands. Finally, the testimony against the investment limit was as forceful as the Farm Security Administration could make it. Meanwhile a ground swell of opposition to the restrictive legislation was also beginning to manifest itself in those parts of the country which were its unhappy victims. Relief came on July 1, 1946. The appropriation act which became effective on that date carried essentially the same provision for limiting investments in farm-ownership farms as were soon to be established by the Farmers Home Administration Act of 1946. As will be explained later in this chapter this statutory limitation on investments permits the purchase, enlargement or development of farms that are efficient family-type, farm-management units.

So vitally was the farm-ownership program affected by the loan or investment limits maintained from July 1, 1940, through June 30, 1946, and so fundamental and important are the issues involved that it appears desirable to present them in considerable detail. This can best be done by quoting from the hearings before the agricultural appropriation subcommittee of the House of Representatives in which the views of the author of the restrictive legislation, Congressman Malcolm C. Tarver of Georgia, as well as the arguments advanced against the restrictions by the Farm Security Administration are set forth.

While the restrictions were in effect Congressman Tarver was a member of the Agricultural Subcommittee of the House Committee on Appropriations, and during the last 3 of the 6 years he occupied the strategic position of chairman of that subcommittee. It should be understood that he was a strong and effective proponent of the farm-ownership program in general. On various occasions, he valiantly defended farm-ownership appropriations when they were under attack in the House. The issue was strictly centered in the kind of farms borrowers should be permitted to purchase and the kind of improvements they should be permitted to put upon them with the proceeds of a Federal loan. However low the average investment in farms of 30 acres or more might be in any county, the Congressman did not want borrowers established above that level by virtue of Federal aid.

Some of FSA's administrators were in substantial agreement with this principle, as their testimony will indicate. The facts are, however, that it is quite impossible to cure a condition of chronic rural poverty that has its origin and its principal cause in inadequate and underimproved farms by perpetuating such farms. It is like trying to eradicate a disease by nurturing and spreading the germs of that very disease.

Just what the investment limitations involved in the actual operation of the farm-ownership program and just how effective, or rather ineffective, the legislative device proved to be even from the standpoint of gaining the result desired by its author will be quite fully revealed on succeeding pages.

The following extracts from the hearings on the Agricultural Department appropriation bill for 1941 record the discussion which led, for the first time, to the inclusion of restrictive language in the appropriation act.[3]

Mr. TARVER. What is the average price, Doctor, of farms, let us say, in Georgia?

Dr. ALEXANDER. Well, for the Nation, it has been $5,395 this year.

Mr. TARVER. Now let us have Georgia.

Mr. BALDWIN. In Georgia, there are 568 borrowers thus far, and the average loan is $3,928; 105 loans were under $3,000; 214 loans from $3,001 to $4,000; 170 loans from $4,001 to $5,000; 64 loans from $5,001 to $6,000; and 15 loans from $6,001 to $7,500.

Mr. TARVER. Is $7,500 the maximum?

Dr. ALEXANDER. That has been the highest in Georgia.

Mr. TARVER. Now, I have this idea: We are dealing here with the very poorest class of agricultural people. I think around two-thirds of the farmers in my district are tenant farmers. I do not see the point in buying one of those men a farm worth $7,500, when you could buy four farms, for four tenants, at one-quarter of the price, which would buy a fairly good farm in my district for a tenant and one with which 99 percent of the tenants in my district would be satisfied. In other words, I do not think the purpose of this program is to buy expensive farms for a few who are selected but to buy farms of moderate value for as many tenants as you can. And I cannot understand why you buy expensive farms for some of those tenants, thereby depriving other tenants of a chance to get any farm at all.

Now, there are lots of people in my district who would be glad to get 50 or 60 acres of land with a decent house and barn on it . . . many of them who have no land at all . . . They would like to get a home; and the matter of improving the home, improving the land, and increasing the fertility of the land is a matter for the tenant to work out by himself and thereby reduce the necessity of them having to pay for the improvements on the farm to start with, it seems to me.

Now, I was wondering just what justification you think exists for these $7,500 farms for tenants to buy?

Dr. ALEXANDER. Generally speaking, Judge Tarver, the committees evidently agree with you, because out of 568 only 15 of them cost as much as $6,000. The great majority of them cost from $3,000 to $4,000.

Mr. TARVER. Yes; but they average $3,900 for the State.

Dr. ALEXANDER. You think that is a little high?

Mr. TARVER. Twice too high.

[3] P. 952, Hearings on the Agricultural Appropriation Bill for 1941 before the subcommittee of the Committee on Appropriations, House of Representatives, 66th Cong., 3d sess.

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Dr. ALEXANDER. What the committee tries to do and what we want them to do is build up the economic unit so the family will be able to make a living on it; it is not just a matter of the buildings and the improvements; I think there should be an economic unit sufficient in size for the family to make a living on.

In the hearings on the 1942 Agriculture Department appropriation bill, Congressman Tarver sought to establish the fact that the mandatory loan limitation had had a beneficial effect upon the program. FSA Administrator C. B. Baldwin did not take sharp issue with Congressman Tarver, but he did emphasize the necessity of establishing borrowers on farms on which they could make a living.

In the course of the hearings on the 1943 agricultural appropriation bill, the same general points were touched upon by Congressman Tarver in his questions and by Mr. Baldwin in his answers as were covered the year previous. Mr. Baldwin said at one point: "I do want to say that there are some counties in which we are handicapped. I would hope that sometime, where that (the loan limit) is causing particular difficulty, that we might be given some little flexibility on it." But in answer to Congressman Tarver's general observation: "But on the whole it has worked out?" Mr. Baldwin replied: "On the whole it has.".

The House committee hearings of the following year made no specific reference to the price limitation. Congressman Tarver was still chairman of the Subcommittee on Agriculture of the House Appropriations Committee and Mr. Baldwin was making his last appearance before congressional committees in behalf of appropriations for the Farm Security Administration. A year later, however, Mr. Baldwin's successor, Administrator Frank Hancock, declared that the restriction was harmful and recommended its elimination. Mr. Tarver's own statement reflected rising opposition to the amendment among his congressional colleagues. He said:

Some of my colleagues have been complaining with reference to the provision which we have carried in the bill for the last several years . . . claiming that the insertion of that provision has handicapped the operation of the farm-tenant land-purchase program. In prior years we have had evidence from the head of your organization which, while at first it was adverse to the inclusion of the provision cited, later tended to show that more purchases were being made, more tenants were being serviced in their desires to become land owners, and farms were being procured at lower values than would otherwise have been possible. I am wondering whether or not, in your experience since November 15, 1943, as head of this organization, you have acquired any facts in this connection which you think might be of interest to the committee.

To this Mr. Hancock replied:

Judge, naturally I have given study to the price-limitation amendment. I am not as thoroughly familiar with its application or the experience under it as my predecessors were. My information is that it prevents us from purchasing full economic units in about a fourth of the counties in the United States and that it is more or less ineffective in a fifth of the counties of the United States because in those counties we could loan in excess of the administrative limitation of $12,000. On the other hand, I have heard that

such a limitation had some virtues in a small number of instances when it came to furnishing a bargaining weapon, so to speak. It appears to be harmful, however, since it comes up every week in the administration of the Farm Security program. I expect that I would have to have more experience in order to pass final judgment on that. I know that there has been considerable opposition registered to it from different sources. We had a letter recently from Representative Cannon expressing the hope that the limitation might be raised in Callaway County, Mo. We also have received a number of similar letters from many other interested persons.

At this point Mr. Hancock introduced into the testimony a prepared statement the concluding paragraphs of which read as follows: [4]

I cannot be indifferent to the judgment of the regional directors and division heads who have had practical experience in the administration of this program under this restriction. They are unanimous in their judgment that the restriction is harmful.

This whole matter can be summed up by saying the price limitation is too restrictive in approximately a fourth of all counties and it is wholly without effect in approximately one-fifth of all counties. The conclusion is unavoidable, therefore, that the restrictive provision simply is not a practical or satisfactory control device.

Because of the extreme difficulty inherent in developing a formula for restricting loans in the various counties that can be applied without harmful effect in many of them, it is my judgment that this matter should be left to administrative control. If it were so left, I would certainly be keenly conscious of my responsibility in keeping loans everywhere within the confines of what may be described as modest family-type farms. With the aid of our county committees, I think this can be done in a manner that will meet with congressional approval. Should my recommendation on this point be accepted, I shall certainly spare no effort in demonstrating that the trust has been safely imposed.

Administrator Hancock's recommendation, however, was not followed. In testifying in behalf of the 1946 appropriation for the Farmers Home Administration he renewed it in equally strong terms but Congressman Tarver said: [5]

Frankly, I do not think you made a very good case for the elimination of that provision. I realize that in some localities it is difficult to observe that restriction, but I have never felt that it is fair for the Government to take a tenant off of Mr. Jones' farm, Mr. Jones having acquired the farm through his own efforts and savings, and buy that tenant a farm worth a great deal more than the farm of Mr. Jones and furnish it to him entirely at the expense of the Government on the basis of a loan. There are localities where an average farm, a farm of average value, would not satisfy the needs of a tenant, but it seems to me in those localities the program might as well not operate. . . .

In addition to the verbal testimony there was incorporated in the record of the 1946 hearings reports received from the respective States as to the

[4] Pp. 976–977, Hearings on the Agricultural Appropriation Bill for 1945 before the Subcommittee on the Committee on Appropriations, House of Representatives, 78th Cong., 2d sess.

[5] P. 586, Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, 78th Cong., Agriculture Department Appropriation Bill for 1946.

availability of farms suitable for purchase by farm-ownership borrowers from which the following excerpts are quoted: [6]

Arkansas: The one big problem in Arkansas is the price limitation. If this limitation could be eliminated there is no question but that Arkansas would need several times as much loan money as is available during this year, in order to take care of applications.

Colorado: In some of these counties the price limitation is the principal deterrent factor.

Georgia: If the price limitation were removed, the opportunity for locating good farms at reasonable prices would be increased considerably.

Kansas: The present price limitation would prohibit loans to certain counties, and such a situation would be regrettable, particularly with respect to the veterans.

New Jersey: The removal of the price limitation would increase considerably the opportunity to make good loans in this State.

North Carolina: The removal of the price limitation would make it possible to make more sound loans to returning veterans and other applicants.

Texas: This State could use for the fiscal year 1946, on a sound basis, at least three times the amount of our tenant-purchase allocation for the present fiscal year. With the removal of the price limitation even more could be used to advantage.

Once again Mr. Hancock's efforts were without avail. The price limitation was continued. As previously stated the wording in the 1946 appropriation act was changed so that it became a limitation on total investment rather than merely upon purchase price. As previously explained it was substantially more severe despite the 15-percent leeway allowed above the average value of farms 30 acres or more.

In discussing the new investment limitation during the annual farm-ownership conference held in Washington, D. C., July 23–28, 1945, the author made the following statement:

The new price limit.—First upon the list of significant things affecting the welfare of our program stands the new and more stringent limit placed upon loans to nonveterans. As this limit is stated in the Agricultural Appropriation Act for 1946 and as it is to be administratively interpreted according to the Administrator's telegram of July 10, it renders title I of the Bankhead-Jones Farm Tenant Act virtually inoperative in well over half of the agricultural counties of the United States. They are the counties in greatest need of the program. Thus, we have a restriction in an annual appropriation act which is in definite conflict with basic enabling legislation. If I correctly interpret the statistics which are before us they suggest that it is seldom possible to buy and put the necessary improvements upon farms on which operators can succeed for less than $4,500. I am speaking now of the parts of the country in which land and improvements cost the least. There are other parts of the country in which it is seldom possible to do the job for less than $7,500 or $8,000.

What are we to do in the face of these circumstances? We must do our best to make sound loans within the established limits as we have done ever since the price limit was first established. Secondly, we must not compromise sound principles in order to make loans even though we make none

[6] Pp. 589–594, pt. I, Hearings Before Subcommittee of Committee on Appropriations, House of Representatives, 78th Cong., 1st sess.

at all. The clear import of the price limit is that Congress does not want funds appropriated under the Bankhead-Jones Farm Tenant Act to be used to establish borrowers on a better basis than they can be established on farms coming within the cost established in the respective counties by the average value of farms 30 acres or more in size with 15 percent added thereto.

Dillard B. Lasseter had succeeded Frank Hancock as Administrator of the Farm Security Administration by the time of the hearings on the 1947 agricultural appropriation bill were held. A friend of long standing and fellow Georgian he enjoyed to an unusual degree the confidence of Subcommittee Chairman Tarver. He did not recommend the abolishment of all legal controls. Rather he proposed a plan for limiting loans developed by his farm-ownership staff and legal advisors, which he held would be more effective in gaining the ends desired and at the same time eliminate the harmful effects of current restrictions. His statement before the subcommittee follows: [7]

I understand and concur in the purposes back of the limitation, however, the record suggests that the present control is not working out in practice as intended.

We have had a county-by-county check made by our field representatives and they have listed 1,601 counties, or 52 percent of all the counties in the United States in which it is not probable that economic family farms can be bought within the legally established loan limits. The counties so listed are indicated on a map which, with your permission, I should like to submit for the use of the committee . . .

I have a proposal to make with respect to this loan limitation which I hope may meet with your favorable consideration. It involves heavy reliance on the county FSA committee to which I have referred and it also involves making use of the information available from another very reliable source wholly independent of the Farm Security Administration—namely, the experiment stations and the extension services of our land-grant colleges . . .

I offer this as a practical solution of this problem. I believe it provides control which the Congress will find adequate and at the same time a plan that would meet the widely varying conditions in the 3,000 counties in the United States. It is consistent with the Bankhead-Jones Farm Tenant Act which requires that the Secretary determine that farms purchased are of such size—and, by implication, not in excess of such size—as to constitute efficient farm-management units on which diligent farm families can carry on successful farming operations.

Twenty pages of the printed report of the subcommittee hearings are devoted to the discussion precipitated by Administrator Lasseter's recommendation.[8] Congressman Tarver took exception to the interpretation the Farmers Home Administration placed upon the restrictive language included in the appropriation acts from 1942 through 1946. The testimony on that point follows: [9]

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[7] Pp. 1388–1389, Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, 79th Con., 2d sess., Agriculture Department Appropriation Bill for 1947.

[8] Pp. 1466–1487, Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, 79th Cong., Agriculture Department Appropriation Bill for 1947.

[9] Ibid.

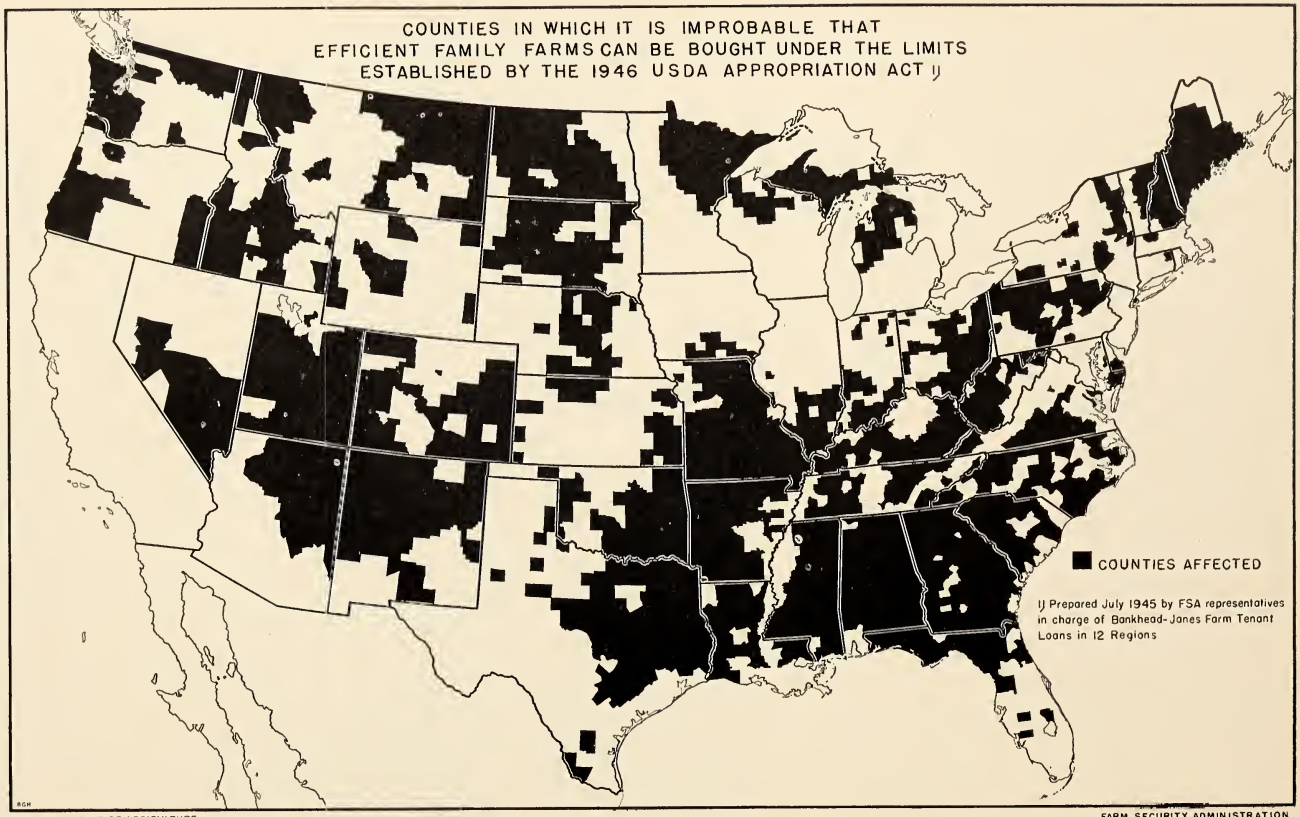
COUNTIES IN WHICH IT IS IMPROBABLE THAT
EFFICIENT FAMILY FARMS CAN BE BOUGHT UNDER THE LIMITS
ESTABLISHED BY THE 1946 USDA APPROPRIATION ACT 1/
COUNTIES AFFECTED
1/ Prepared July 1945 by FSA representatives in charge of Bankhead-Jones Farm Tenant Loans in 12 Regions
RGH
U.S. DEPARTMENT OF AGRICULTURE
FARM SECURITY ADMINISTRATION

FIGURE 18

Mr. Tarver. Now, I am advised that while this limitation has been observed, it has not been held to prohibit the making of supplemental loans for improvements on the farms. For example, the value of a farm, according to the standard fixed, might be $5,000. The loan would be limited to that amount. But, an additional loan would be made of perhaps $2,500 to enable the borrower to make permanent improvements on the farm, such as the building of a house or barn or other buildings thereon, and in which event the effect of the limitation, it would seem to me, would be destroyed. Now, is that practice followed or not.

Mr. Maris. That is not the practice, Judge. If a loan is made to purchase a farm within the limits set by the language which you have quoted, no supplemental loan is made to exceed that amount. In years prior to the current year we have made loans for the purchase of farms, including in those loans money sufficient to make repairs and improvements on those farms . . .

Mr. Tarver. Yes. Then, heretofore you have been doing what I have described, that is, prior to this fiscal year?

Mr. Maris. In effect we have been doing what you have said, but we have been making it in the form of a single loan for the purchase of a farm and for necessary improvements and repairs to the farm . . .

Mr. Tarver. Well, I am very glad that the Senate, in its efforts to deal with this question last year, clarified that subject matter, because I think it was the intention of this committee all the time that the restriction should be, as it is provided in the language of the current bill, which was inserted in modified form in the Senate and changed to some extent in conference . . . Have you not found that the increasing of the limitation by 15 percent above the normal value has been helpful to you in locating farms for use in the program?

Mr. Maris. On the contrary, Judge, since the different interpretation has been put upon the new language, and since both the purchase of the farm and the improvements upon the farm now come within the limit, it becomes much more restrictive, as we administer it, than it was heretofore.

There was extended discussion of the extent to which the administrative problems complained of by FSA might be solved by the use of data from the 1945 rather than the 1940 census. The pertinent points are brought out by the following quotations: [10]

Mr. Tarver. Well, of course, if the committee and the Congress should insert a provision here, or change this limitation so as to make it upon the basis of 1945 farm-census figures, your troubles would be solved, because those figures would show a tremendous increase in over-all farm values . . .

Mr. Maris. The difficulty is that the census does not provide a satisfactory basis for control. It still leaves us under obligation to make loans for such amounts as $2,000, $1,800, $1,750, to buy and improve a farm. Our county committeemen simply will not approve loans in those amounts, because in their good judgment it takes more than that to buy a farm on which a borrower can succeed.

Mr. Tarver. Well, I think that is a mistaken idea. I am not talking about $1,800 or $2,000, or any other particular amount. But I happen to have been reared on a very poor north Georgia farm, and I know some-

[10] P. 1478, Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, 79th Cong., 2d sess., Agriculture Department Appropriation Bill for 1947.

thing about the tenant farmers in my district, and two-thirds of our farmers are tenants. The average tenant who has farmed all of his life and never has been able to accumulate enough money to make a substantial down payment on the purchase of a farm would be very happy if he were furnished not with an expensive farm, not with one which compares favorably with the farms of his more prosperous neighbors, but with a farm where he would have an opportunity, by his labor, to make good, to become a landowner . . .

Mr. Lasseter was asked by Mr. Tarver to suggest language limiting loans to be substituted for that then in effect and he submitted the following: [11]

Provided, That no loan shall be made under this title, with respect to any farm, the value of which, as acquired, repaired, or improved, is in excess of the average value of efficient family-type farm-management units as determined by the Secretary in the county, parish, or locality where the farm is located.

Congressman Jamie L. Whitten of Mississippi, a member of the subcommittee, raised the question as to how much the 15 percent leeway would have to be increased to permit the purchase of adequate farms. The discussion of this matter is recorded in the hearings as follows: [12]

Mr. Whitten. . . . if the present restriction was retained in the bill, how much change would there have to be in that 15 percent to properly take care of it (the situation) . . . What figure would have to be substituted for the 15 percent, in your judgment?

Mr. Maris. I would say in answer to that question that in those counties where the limit is less than $3,000—and it is less than $3,000 in 18½ percent of the counties in the United States—that the limit would have to come up so that we could make loans for $4,500 and $5,000 in order to operate successfully in those counties. The difficulty in applying a percentage increase to the census figure is that in a county where the limit is $1,500, a 50-percent increase only raises the limit to $2,250. In a county with a $10,000 limit, the same proportionate increase would enable us to make a $15,000 loan.

Mr. Whitten. So that it is your judgment, then, that in an effort to reach a solution to this problem, it would be better to fix some such figure as we have in the present bill, and provide that in no case would it be less than a certain figure which might be arrived at?

Mr. Maris. That has been considered very carefully as a possible solution, but it would not take care of Callaway County, Mo., for example, where the limit is forty-six hundred and fifty-nine dollars. Congressman Cannon reported this limit too low in that good agricultural county. A flat minimum does not take into account the great range in conditions in counties. There are counties where a $5,000 limit hurts and where that is way below the average successful family farm of the county. Therefore, an attempt to solve the problem by a percentage increase above a census figure will not prove adequate relief for the situation.

Mr. Tarver. According to your doctrine, you know a county where the average value of the average farm is $2,500 and you would say that that farm is not a producing unit sufficient to adequately care for a farm family, and, therefore, "We are going to buy this tenant a $5,000 unit," although

[11] P. 1471, Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, 79th Cong., 2d sess., Agriculture Department Appropriation Bill for 1947.

[12] Ibid., pp. 1481–1482.

the average farmer in the county has only a $2,500 farm. Is that your philosophy?

Mr. Maris. Not precisely. I would state it more like this: That we would go into these low-income counties, where values are very low, and we would establish there the most inexpensive economic unit that promises success, on which a borrower can make his living—modest living—and retire his debt.

Mr. Tarver. Even though your judgment as to what the value of that economic unit would be, would be that it would have to be twice the value of the average farm in that county?

Mr. Maris. I think the answer to that question would be yes, if the level of values had sunk so low and the evils of tenancy had developed in that county so that in order to correct them you needed to come in there with an economic unit. The reason would be that the purpose of the act is to correct what you find in these counties where values are excessively low.

Mr. Tarver. When you undertake to correct it by doing things like that, you are going to destroy any belief in the act on the part of the farmers in that county who have acquired their own farms and I think the trouble with this thing is now and has been in the past, that your philosophy has been governing it to some extent. I certainly hope it may be eradicated from this structure because I think it is essential to the success of the farm-tenant land-purchase program in which I am vitally interested, that this idea that you have enunciated here shall be eliminated from its administrative procedure and that the program will be benefited by that being done at the earliest possible moment.[13]

When the 1947 Agricultural Appropriation Act was passed it carried essentially the investment-limitation language proposed by Mr. Lasseter. A clause excepting veterans had been added but such an exception had been incorporated in previous limitations and its inclusion represented no change on that score. Thus a significant and long-drawn-out struggle to free the farm-ownership program from crippling restrictions came to a gratifying conclusion.

By Process of Trial, Error and Deductive Reasoning, a Better Basis of Limiting Farm Ownership Investments Was Finally Evolved

Prior to hearings on the 1947 Agricultural Appropriation Act, there was a serious defect in the attempts made to gain relief from restrictive loan provisions. No formula for limiting loans or investments was proposed which satisfied the desire of Congress to retain legal controls and at the same time promised to do no incidental and unintended violence to the program because of the technical faults of the control device.

Entirely aside from the question of the desirability or undesirability of legal limits and how high or how low they should be, the fact remains that the control imposed in the appropriation acts was technically a faulty one. No further proof need be offered than that in 544 counties it permitted loans in excess of the limit established voluntarily by the Farm Security Administration. If the Farm Security Administration needed legal restraints at all certainly it would appear that it needed them most in these 544 counties

[13] P. 1485, Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, 79th Cong., Agriculture Department Appropriation Bill for 1947.

where prevailing values of farms were high and where loans could legally be made which by any reasonable standard would be considered excessive.

Perhaps the greatest technical defect of the appropriation act limitation however, was that the farms of many unsuccessful and financially insolvent farmers were included in the average of all farms 30 acres or more in size in the respective counties. Excluding farms under 30 acres did not exclude the failures. Since the law required that the farms be efficient farm-management units, and compliance with the investment limitation often prevented them from being such efficient units, it became a clear-cut case of double and conflicting legal standards. Senator Bankhead, one of the authors of the Bankhead-Jones Farm Tenant Act, recognized this fact. In the course of the hearings before the Senate Subcommittee on the 1946 Agricultural Appropriation Bill he said: "I have always had an idea that the amendment was in conflict with this (the efficient farm-management unit provision) and I think it could not be done in the appropriation bill without suspending the rule.[14]

The perplexing question was how could these technical defects be overcome. The Farm Security Administration did its best to find an answer inside and outside its ranks. Conferences were held on the subject with officials of the Bureau of Agricultural Economics but they too were baffled by the problem. No one was able to devise a way in which census data could be made effectively and uniformly applicable. Clearly an arbitrary dollar limit which would fit one county would be too high or too low for another if there were to be any recognition whatsoever of the principle of reasonable conformance with prevailing farm patterns or living standards.

If a way could be found to determine, by counties, the average value of efficient family-type farms, that is, farms on which families of typical ability could make a living compatible with generally accepted standards, it appeared that the problem would be satisfactorily solved. None of the Farm Security Administrators opposed the principle of legal control over amounts to be loaned or investments to be permitted. Mr. Hancock recommended that the matter be left to administrative discretion at a time when no workable formula had been suggested. In recommending the substitute control device which was finally adopted Mr. Lasseter said:

> I am certainly in favor of controls. Administratively, I want just as many directions laid down for me as possible so that therefore I can make very few mistakes. In other words, I do not want for myself too much administrative discretion in this question of farm values. I realize that we can make some mistakes in it.

However, there is something to be said in favor of administrative as contrasted with legal control over maximum loans or maximum investments. Under any administrator likely to obtain or long retain the office there would probably be little difference in the end result, whether the law merely defined objectives with respect to farms in a broad way or whether it set up limits on investments necessitating mathematical determinations by counties. After all an administrator must render an accounting of his stewardship to Congress each year when he appears to testify in behalf of

[14] P. 309, Senate Hearings on H. R. 2689, 79th Cong., 1st sess.

the administrative budget for his organization. He submits data on the amount of loans and the value of farms, etc., as a matter of routine and he is subject to questioning on every phase of policy and practice. If he displays tendencies to "get out of line" in any direction criticism of his action, or if need be, the curtailment of administrative funds provide ample remedies. It is not therefore a question of congressional control, which is implicit in any event, but a question of the manner in which that control is best exercised.

There is yet another control over administrative action which in this instance is powerful. That is the reaction of an ever-interested and watchful public. The farms purchased with the proceeds of farm-ownership loans cannot be hid under a bushel. They are constantly subject to observation by neighbors who are quick to detect digressions from sound public policy and inappropriate use of public funds. They are also observed by county committeemen, State committeemen, farm-organization leaders, bankers, and other whose devotion to the public interest greatly transcends their desires to uphold the policies of an administrator in the national capital.

Granting that the control device adopted is well-designed to carry out the will of Congress, as the present device appears to be, the point would not be worth consideration if such legal limits could be developed and maintained without a good deal of expense. But working out and publishing precise legal limits for each county in conformance with the legal provision does involve a good deal of expense. Changing limits when conditions change or when errors have been made is also expensive. Each additional legal requirement that must be precisely checked against tends to complicate administrative action and adds to the sum total of what is commonly described as official red tape. These are the invisible and intangible prices that must be paid for legal controls and they are worth the cost only when the desired end cannot be achieved otherwise with comparable certainty and less expenditure of time and effort.

The general idea which led to the investment-control device embodied in current legislation originated with Prof. John D. Black of Harvard University as the following letter of Feb. 24, 1945, from the author to the administrator, Hancock, reveals:

Dr. John D. Black of Harvard University has made what I believe to be the best suggestion that has come from any source during the 3 or 4 years that we have been seeking a possible substitute (for the investment limitation). It is that the directors of agricultural experiment stations designate the amount required for the purchase of family farms by counties in their respective States.

We have embodied John D. Black's proposal into legal language patterned after the language of the Tarver Limit. It is as follows:

> ". . . which sum shall not be used for making loans under the terms of said act for the purchase of farms of greater value than the average successful family-size farms in the county or parish in which such purchases may be made, which value shall be determined for each county or parish in the State by the Director of the State Agricultural Experiment Station."

Experiment station directors have staffs of specialists to advise them; they are intimately familiar with the agriculture of their respective States and counties. While I would much prefer having the matter left, as you propose, to administrative control, if we must have a legal control, the FO division recommends the above-quoted provision.

Further study of the foregoing recommendation led to the conclusion that the Secretary of Agriculture, who is authorized in the Bankhead-Jones Farm Tenant Act "to make loans and insure mortgages" and is, therefore, in the last analysis administratively responsible for what is done, should determine by counties the average value of efficient family-type farm-management units. In so doing, as the instructions quoted hereafter will indicate, he seeks the advice of directors of experiment stations, directors of extension services and State FHA committee members, at the State level and the advice of county FHA committeemen, county supervisors, and county agricultural agents at the county level.

Since Congress had often emphasized the importance of conformance with prevailing averages, and since FHA administrators had not objected to the principle but rather had objected to the inclusion of failures in the computation of averages, it was decided that investments should be limited by the average value of efficient family-type farm-management units in the respective counties and not the amount which local authorities considered essential as an upper limit. This was a rather finely drawn distinction and one which was not always strictly observed despite administrative efforts to have it observed. Therefore, while the principle proposed by Dr. Black was adopted, the manner in which it was applied was modified in detail.

On January 5, 1946, Assistant Administrator Stephen C. Hughes sent a letter to three regional directors having jurisdiction over seven Southern and five Midwestern States requesting each of the three to select one State and apply experimentally the proposed procedure for determining investment limitations. Alabama, Mississippi, and Missouri were the States chosen.

Table 15 shows a comparison of 1946 legal investment limits based on a 15-percent leeway above the average value of farms 30 acres and more in size as shown by the 1945 census, the limits recommended by county committees in conformance with the proposed procedure, and the limits recommended by State committees, which, under the proposed procedure were to review and revise the recommendations originating in the counties.

Only the first five counties from each State's alphabetical list of counties are included in the table but they are sufficient to indicate the the contrasts to be anticipated by substituting the new procedure for the old. It will be noted that not in a single one of the 15 counties did 15 percent above the average value of farms 30 acres and more in size provide a limit which corresponded at all closely with the best informed local judgment as to the average value of efficient family-type farm-management units. In 14 instances 15 percent above the average value of farms 30 acres and more in size was below and in 13 instances far below what local agricultural authorities thought it should be. In one instance, Atcheson County, Mo., it was more than local agricultural authorities thought it need be. In six

TABLE 15.—*A comparison of investment limits established by legislation in effect in 1946 and investment limits established in conformance with proposed new procedure*

State	County	1946 investment limit	Investment limit recommended by county	Investment limit recommended by State committee
Alabama	Autauga	$2,284	$4,500	$5,500
	Baldwin	4,003	8,000	8,000
	Barbour	1,848	5,800	6,500
	Bibb	1,944	8,000	8,000
	Blount	2,055	8,000	8,000
Mississippi	Adams	3,571	8,000	8,000
	Alcorn	1,746	9,700	9,700
	Amite	1,710	6,000	6,000
	Attala	1,455	7,000	7,000
	Benton	1,626	5,000	6,000
Missouri	Adair	4,518	8,000	8,000
	Andrew	8,815	11,000	10,000
	Atchison	18,178	15,000	12,000
	Audrian	6,230	9,000	9,000
	Barry	2,840	6,500	7,000

instances State committees, when reviewing the recommendations of county committees, found occasion to make adjustments in the interest of consistency. Four of the six changes made by State committees were upward and two were downward.

Changes made by State committee in the 15 counties included in table 15 are typical of changes made in the other counties of Alabama and Mississippi. The Missouri State committee accepted 37 county committee recommendations, raised 33, and lowered 44.

In transmitting the recommendations for Missouri, the acting regional director said:

It is our feeling that the attached material represents the composite judgment of the most capable representatives of Missouri farm people and the Missouri College of Agriculture that we could assemble to consider the problem. We are confident that their recommendations are based on good judgment and sound reasoning and that the limitations recommended by the State committee will (1) permit the successful operation of a sound, farm-ownership program throughout the State of Missouri instead of in a limited number of counties as is now true, (2) restrict the purchase of farms to those locally acceptable and desirable as family-type units, and (3) prevent the acquisition of farms that are incapable of furnishing a satisfactory level of farm living.

The acting regional director made the following statement in transmitting the recommendations for Mississippi:

County supervisors discussed the matter at committee meetings with the representatives of other agencies present. These included Agricultural Extension Service, Soil Conservation Service, Production and Marketing Administration (AAA), and Vocational Agriculture. In a few instances vet-

eran members of the agricultural loan certifying committee were present as were chairmen and members of the county AAA committees.

Following the meetings of county committees a State FSA committee meeting was held in Jackson, Miss., for the purpose of reviewing the recommendations of the county committees. Among those present were Mr. L. I. Jones, director of extension, and Dr. Frank Welch, head of department of agricultural economics, Mississippi Experiment Station, representing Dr. Clarence Dorman, director of Mississippi Experiment Station. Mr. Jones and Dr. Welch participated freely in the discussions and were in agreement with the conclusions and recommendations reached by the State committee.

Some members of our staff who have gone over these limits have a feeling that they are somewhat high. However, as pointed out in the county committee meetings and in the State committee meeting, the resources needed for carrying on a family-type farm operation are gradually increasing. In other words, more land is required to provide incomes necessary to support an increased standard of living, to pay overhead cost of farm maintenance and operation, to enable borrowers to use modern scientific methods, and to make payment on debts than in the past.

The Farm Security Administration was convinced as a result of the preliminary trial in the three States that the procedure used resulted in a much more practical and workable investment limit than that based on census data. This conclusion was reflected in Mr. Lasseter's recommendation to the appropriation subcommittee and to the drafters of the Farmers Home Administration Act of 1946.

Upper Limits on Investments in Farm Ownership Farms Fixed by Statutory Legislation in 1946

The Farmers Home Administration Act of 1946 carried essentially the same investment-limitation provision as the Agricultural Appropriation Act for 1947.[15] It did not exclude veterans from the investment limitation. The appropriation act did exclude them. Just why veterans ever should have been excluded is not clear. From the standpoint of administering the program, it was fortunate indeed that they were excluded. Had they not been, the program could have sunk to such a low ebb in 1946 that the result might well have been fatal. But that does not adequately explain the reason for exempting veterans. If investment limitations were thought to be necessary and desirable as applied to nonveterans it would appear to follow logically that such limitations would be necessary and desirable as applied to veterans.

When the Select Committee of the House Committee on Agriculture investigated the Farm Security Administration, it gave careful consideration to the effects of the investment limitations imposed by appropriation acts and published testimony on this point in its official report.[16] This committee accepted the recommendations of the Farm Security Administration on the question of investment limitations. In fact it incorporated the recommended control language in the bill which later became the Farmers Home

[15] Sec. 3, title I, Farmers Home Administration Act of 1946.

[16] Pp. 1010–1014, pt. 3, Hearings Before Select Committee on Agriculture, to Investigate the Activities of the Farm Security Administration—House of Representatives, 78th Cong., 1st sess.

Administration Act even before that control language was incorporated in the Agricultural Appropriation Act of 1947.

This harmonizing of temporary and permanent legislation on investment limits was most fortunate. The appropriation act became effective July 1, 1946 and the Farmers Home Administration Act became effective on November 1, 1946. Preparations made and instructions issued to conform with the provisions of the act which became effective on the earlier date were quite as applicable in the case of the legislation which became effective 4 months later.

Essentially, the same procedures were followed in developing investment limits to conform with legislative requirements as had been followed in the previously discussed preliminary tests in Alabama, Mississippi, and Missouri.

In conformance with such procedures, limits were quite promptly established and published in the Federal Register. In general, they have effectively prevented investments in farm-ownership farms in the respective counties from going above the average investment in efficient family-type farms. At the same time, they have been high enough to enable borrowers to become established on farms on which they may be expected to live according to accepted standards and repay their purchase debts. The problem of conflicting legislative requirements appears to have been solved.

Exceptions to $12,000 Administrative Limitation on Farm-Ownership Investments Authorized in 1948

Typically, before July 1, 1946, legal limitations on farm-ownership investments were substantially lower than the $12,000 administrative limit. After the new legal limits went into effect in 1946, they were higher than the administrative limit in one-third of all counties. Thus the situation which had prevailed for 6 years was suddenly reversed. Even before the legal investment limits were changed, there was complaint against the $12,000 administrative limit from some States on the grounds that efficient family-type farms could not be purchased and improved within that limit in certain counties. When it became legally possible to increase the investments the demand for permission to do so became more insistent. But those in administrative control were unwilling to move quickly in the matter. Speaking at a national conference of administrative officials in Washington, D. C., June 6, 1946, the writer said:

> The $12,000 administrative limit on farm-ownership loans is self-imposed. There are parts of the United States in which the investment in a typical average family-type farm is now substantially more than the $12,000. My attention is directed to the fact that some farms which we ourselves approved as family-type farms, some 4 or 5 years ago, and loaned money to borrowers to purchase at around $10,000, have recently sold for $20,000. They still have all the characteristics of family-type farms which they had 5 years ago. A typical farm family can, in general, perform the labor involved in operating one of them. Granted that we are prevented by this self-imposed $12,000 limit from making loans in some places, I believe that most of us are agreed that even if we were answerable to ourselves alone we would be slow to put it aside. There are basic reasons.

If we abandoned the limit and loaned whatever may be necessary to enable a family to buy a farm and operate it according to the prevailing practices we would adopt the easy way out. Before we do this we should know that there is not some system under which $12,000 will buy a *good enough* family-type farm. It must be very clear to all of us that we have a special obligation to find ways in which families can succeed with relatively small investments in their farms. We are operating in the lower strata of the total area of family-type farms. We do not run the complete gamut. There are family-type farms representing larger investments than it appears are contemplated by the laws under which we operate.

On February 2, 1948, Administrator Lasseter addressed a letter to all State directors in which he presented the issues involved with respect to the $12,000 administrative limit and requested the advice of State FHA advisory committees. His letter to all State directors follows:

A number of States, particularly in the Midwest and far west have, through resolutions of State committees and otherwise, expressed a desire for an increase in the $12,000 administrative limit on FO loans. This limit was established a few months after the program started because, in certain States, applications were submitted for loans in amounts considered to be excessive and inconsistent with the purposes of the act. It has been in effect ever since. In approximately one-third of the counties in the United States the administrative limit ($12,000) is lower than the permissive legal or "average value" limit. I am advised that it is impossible in some of these counties to purchase and improve family-type farms within the $12,000 limit whereas it would be possible to do so within the legal limit. This being the case the question has been raised as to why the $12,000 limit has been maintained and I want to make my position in the matter clear.

For six consecutive years, beginning in 1941 and ending in 1946, the Congress provided that no loan could be made for the purchase of a farm of greater value than the average value of farms 30 acres or more in size in the county . . . In nearly one-half of the counties of the United States the limits established by the above restrictions were so low that it was impossible to make sound loans. I so advised the Appropriation Committees of the Congress and recommended that the old limitation be eliminated and that essentially the limitation contained in the Bankhead-Jones Farm Tenant Act, as amended, be substituted for it. This was done. The action became effective in the fiscal year beginning July 1, 1946 . . .

When the Congress took the action above indicated I was very definitely charged with responsibility for keeping FO loans in proper bounds. Under these circumstances I was unwilling to alter the $12,000 limit established in 1938 and maintained by all of my predecessors, at least until I had had an opportunity to study the matter thoroughly.

My studies suggest that the $12,000 limit may be too low in some counties. Three alternative policies have been suggested to me as follows:

1. Retain the present $12,000 administrative limit.

2. Increase the administrative limit somewhat above $12,000, but somewhat below the maximum legal limit.

3. Adopt the legal limit as the administrative limit in each county.

In considering these alternatives, the following information will be helpful:

"Average value" as determined by the Secretary	Number of affected counties in the United States
Over $12,000	1,006
Over $14,000	659
Over $16,000	258
Over $18,000	119
Over $20,000	29
Over $25,000	6

In no case would changing the administrative limit alter the legal or "average value" limit in any county.

Regardless of whether we retain or raise the $12,000 limit we must carry out our established appraisal policies in such a manner that we will continue to exercise an anti-inflationary influence on the real estate market. In no instance should the loan limit be increased for the purpose of following inflationary farm real estate price trends. Nor should an increase in the loan limit be made the occasion for getting out of the field of family type farms and thus invite the reestablishment by the Congress of severe legal restrictions.

This whole matter is one with respect to which I desire the advice of our State committees at the earliest practical date. I ask that you present this letter as a basis for discussion therefore by your State advisory committee at its next meeting. I trust that each committee will view the questions broadly and offer its advice from the standpoint of the best interests of the program over a long period of time in the country as a whole. If the $12,000 limit is increased, can loans be kept within proper bounds by the exercise of discrimination by county committees and loan approving officers of FHA?

One point is very clear to me and I feel sure that it would be clear to any one privileged as I am to appraise Nation-wide sentiment toward the farm-ownership program—it is that this program is supported because it helps the little fellow. If we cease to concentrate on him it is my judgment that the program will lose much of its value and much of its support. I hope that all of our State committeemen will keep this principle clearly in mind as they consider the question of raising the $12,000 ceiling.

There was a lack of uniformity in the views the 42 States which replied to the foregoing letter. The following 19 States favored retention of the $12,000 limit: Alabama, Arkansas, Connecticut, Florida, Georgia, Indiana, Massachusetts, Michigan, Missouri, Montana, New Hampshire, New Jersey, New York, Rhode Island, South Carolina, South Dakota, Texas, Vermont, and West Virginia. Both Montana and Texas thought that exceptions to the limit should be made by the Administrator upon proper justification.

Six States, Arizona, Illinois, New Mexico, Oklahoma, Oregon, and Washington, favored a new dollar limit and five of them proposed $15,000 or "about" $15,000.

The following 16 States favored abandoning all limitations save those established by law: California, Colorado, Delaware, Idaho, Iowa, Kansas, Kentucky, Maine, Maryland, Minnesota, Nevada, Ohio, Pennsylvania, Utah, Virginia, and Wyoming. The Territory of Hawaii also favored full reliance upon the legal limit.

Twenty-five of the forty-two respondents, or a majority of them, were in agreement on one point. They favored raising the $12,000 limit but the

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margin in favor of the change was a narrow one and the administrator decided to retain the limit, at least for the time being, and make exceptions to it when such exceptions appeared to be amply justified. He had on February 18, 1948, in the following manner advised the subcommittee of the House Committee on Appropriations of his intentions in this respect:

It is my thinking, and I want to place it in the record, that I should let it be known to our committee in California or Iowa or other State that is hampered by the $12,000 limit that in very deserving cases where the recommendations of the county committee would justify it, that I would grant individual exceptions to the $12,000 limit . . . what I plan to do is to amend the regulations in the Federal Register to permit exceptions in a few areas on an individual case basis, but establish necessary safeguards to insure the soundness of such loans. . . . So I want to let this committee know what I plan to do and find out if there are any objections to it.[17]

No objections were offered to Mr. Lasseter's proposed action. On October 13, 1948, an instruction was issued which provided that "the Administrator may approve a total investment in the farm greater than $12,000.[18] Authority to authorize investments greater than $12,000 was, of course, limited to counties in which the law as amended authorized loans above that amount. Furthermore, it was made quite evident in the instruction that the $12,000 investment limit would be set aside only in special cases. For example, the authority to make exceptions was not delegated. It can be exercised only by the Administrator. It was also provided that: "Each request for action under this paragraph shall be accompanied by a detailed statement of the circumstances necessitating the request, together with the original loan docket and the recommendations of the county supervisor, the county committee, and the State field representative." The Administrator must determine: "that it is not possible for the applicant to acquire, enlarge, or improve the farm and make it an efficient family-type farm-management unit with a total investment of $12,000 or less" and "that the proposed loan will be an unusually sound investment and is safely within the applicant's ability to repay" as evidenced by four stated criteria.

The foregoing policy has not been in effect long enough to determine the extent to which exceptions will be requested. As of May 4, 1950, 303 exceptions had been granted. Forty-four percent of them (134) were in the States of Iowa, Texas, Minnesota, and Indiana. About two-thirds of the requests involved insured loans and one-third direct loans. In 245 cases the exceptions resulted in investments ranging from $12,000 to $15,000. In 46 cases they resulted in investments over $15,000 but not over $18,000. In only four cases have exceptions to the $12,000 limit resulted in investments in excess of $18,000. Eight of the exceptions related to subsequent loans originally made within the $12,000 limit, but later increased in order to finance needed enlargement or development.

An unsound and undesirable practice has manifested itself in some counties in which farms could not be purchased and improved within the

[17] P. 414 of pt. 2, Hearings on Department of Agriculture Appropriation Bill for 1949.

[18] FHA Instruction 401.2, par. VIII.

$12,000 limit. That practice was to disregard the need for improvements involving capital outlay and trust to luck that they could be paid for by hook or crook at some future time, despite the fact that realistic estimates of income and expenditures failed to reveal just how or when. To the extent that this has been done it has been a clear-cut violation of the fundamental policy of putting farms in livable and operable condition at the start. It forces borrowers, operating under the handicap of underimproved farms, to try to accumulate financial reserves for needed capital expenditures when good judgment suggests that they are unlikely to be able to do so. It is hoped that the temptation to resort to such practices will be removed by the relaxation of the $12,000 investment limitation.

Chapter IX

IMPROVING AND DEVELOPING FARMS

A basic policy.—Putting farm-ownership farms in livable and operable condition before, or as quickly as possible after occupancy by borrowers, was mentioned in chapter V as one of the distinctive features of farm-ownership loans. Traditional practice has inclined strongly toward the reverse of this policy. In other words, primary emphasis has been placed upon acquiring fee simple title to farms. It has been assumed that in due course of time an industrious and competent owner will be able to make his farm pay for needed improvments and that such improvements can be deferred until reserve capital has been accumulated. Frugality has been regarded as a virtue even when carried to the extent of getting along without capital expenditures which if made would yield high returns and enhance prospects for success.

Undoubtedly, thrift and frugality have been important elements in many successful business undertakings. The question is at what point does "doing without" becomes a vice rather than a virtue, a business handicap rather than a business aid. Does good business policy and good public policy dictate that a farm-ownership borrower start with land that has received or will immediately receive needed basic treatment? Should he start in a home which provides certain minimum comforts, conveniences and safeguards to health and physical well-being? The Farmer's Home Administration and its predecessors have answered these questions affirmatively.

Granting that this whole question of improvement and development of farms is one of degree in which good judgment and common sense must play important roles, it should be made quite clear nevertheless that more emphasis has been placed on putting farm-ownership farms in livable and operable condition at the start than has been true in farm real estate financing in general.

There were differences of opinion in administrative circles and within the ranks of State and county committeemen at to what the farm improvement and development policy should be in the administration of the Bankhead-Jones Farm Tenant Act. While the author was impressed, he was not convinced by the views of those who, in the early days, counseled close adherence to the practices of pioneers who cleared their own land, built their own log houses and "raised" their own barns with the help of good neighbors. Now in the light of almost 12 years of experience, it is possible to state quite categorically that the break with that tradition has been justified. The policy of putting farms in livable and operable condition at the start is a better one than that of merely helping a man acquire title

to a farm and leaving him to work out his own destinies. It has contributed to the success and well-being of borrowers and to the soundness and security of loans. It has met with almost universal public approval. It appears to merit favorable consideration as a cardinal principle of farm real estate financing whether it be private or public.

Three pertinent questions may be raised:

1. Upon what basis can the policy of putting farm-ownership farms in livable and operable condition at the start be justified?

2. What, in simple terms, does the Farmers Home Administration mean by the expression "livable and operable conditions"?

3. What noteworthy problems and experiences have been encountered in developing and carrying out FHA's farm development and improvement policy?

Justification of policy.—The two most important justifications for the policy of putting farms in livable and operable condition when loans are made have been suggested in the foregoing discussion. If the expenditures have been made or provided for which will put the land in operable condition, including needed drainage, or irrigation installations, if the farm is properly fenced, if permanent pastures are established or funds provided for establishing them, if there are adequate living quarters, the borrower and his family are in position to devote their energies to productive effort. In the words of the instruction now in effect:

> It is assumed that farm income, at least until the borrower has acquired a substantial equity in his farm, will be needed to meet living and operating expenses and to get the borrower ahead of schedule in retiring his farm-ownership loan. In general, therefore, farm income should not be used to finance expenditures for planned construction and repair.

The files of the Farmers Home Administration contain the records of too many borrowers whose loans were made in complete or partial violation of the policy of putting their farms in livable and operable condition at the start. These borrowers have worked under serious handicaps. Often they have gotten behind schedule as a result of using money that should have been applied to paying off their debts and getting ahead of schedule while prices for farm products remained high to repair fences, build buildings and clear and level land.

A second justification for the policy pursued is that borrowers will work harder to pay for well-equipped, well-improved farms than they will to pay for farms which lack these essentials. There is less tendency to default on payments or to abandon the farms. This fact was well illustrated by what happened when building restrictions were in effect during the war period. Many borrowers whose building programs were deferred were subjected to real hardships. There was a commendable tendency to submit to inconveniences uncomplainingly for patriotic reasons. Yet some borrowers became dissatisfied and some applicants withdrew their applications when they discovered what they would have to put up with if they became owner of farms on which they could not expect to have suitable homes in the foreseeable future.

Minimum Requirement for Health, Comfort, and Convenience of Borrowers

Current FHA instructions contain the following 13 minimum standards for "Construction and Repair" of farm-ownership properties.[1]

1. *Domestic water supply.*—The domestic water supply must be adequate and uncontaminated. Wells and springs should be situated so as to avoid pollution from barns or outdoor toilets and should be protected from surface seepage. Wells should have concrete slab covers with sanitary type pumps installed. Cisterns should be kept clean and tightly covered.

2. *Privies.*—Privies must meet State health department approval as to design and location.

3. *Foundations and floors.*—Foundations must be adequate and sound, and floors must be in good condition.

4. *Roofs and exterior walls.*—Roofs must be watertight. Exterior walls of wood should be protected by paint or other preservative, except in the case of old structures with very rough exterior finish or in the case of temporary buildings where painting would not be practicable.

5. *Chimneys and flues.*—Chimneys and flues must be so constructed and in such repair as not to be fire hazards. New chimneys should be built from the ground up with clay tile or other suitable lining. Old chimneys and flues should be examined thoroughly for defects and should be well braced and supported. Mortar joints should be tight. No frame should be built into the chimney.

6. *Interior walls and woodwork.*—Interior walls and woodwork should be clean and in good repair.

7. *Ceilings.*—Ceilings must not be less than 7 feet four inches high for all new dwellings. In the case of remodeling, this standard should be met as far as practicable.

8. *Windows and doors.*—Windows and doors must be in good repair, properly screened, and in sufficient number to provide adequate light and ventilation.

9. *Stairs and ladders.*—Stairs and ladders must be made safe and firm. Stairs, particularly those in the dwelling, should be provided with handrails.

10. *Sleeping quarters.*—Sleeping quarters should be adequate to meet family needs.

11. *Kitchens.*—Kitchens in both new and remodeled dwellings should be lighted and ventilated adequately, properly equipped with sinks, cupboards, drawers, and adequate working surfaces. Sinks should be connected with drains which carry off water in a sanitary manner.

12. *Home storage space.*—There should be adequate space for storing food, clothing, utensils, tools, produce, and other household items.

13. *Farm storage space and shelter.*—There should be adequate space for storing grain, feed, farm products, equipment, and supplies. Adequate shelter should be provided for planned poultry and livestock enterprises.

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[1] FHA Instruction 424.1 (June 20, 1947).

Minimum Requirements for Land Improvements

The earlier instructions issued to field employees by the Farm Security Administration did not include a specific list of land-development standards. The Journal of Proceedings of the Annual Conference of Farm Ownership Chiefs held in Washington, July 8–13, 1940, contains the following statement under the heading "Minimum Standards for Soil Improvements":

B. W. Lodwick (Farm Ownership Chief for region III) proposed that there be included in procedural instructions a set of minimum standards for soil improvement. He pointed out the importance of basic soil improvement work in the successful operation of a farm and the consequent retirement of a borrower's debt and stated that in many county committee schools there had been criticisms of the fact that, although we have a set of minimum standards for building improvements, we have failed to specify any minimum standards governing the equally and perhaps more important matter of soil improvement.

There was general assent to Mr. Lodwick's proposal, but because of preoccupation with wartime adjustments, it was not until August 25, 1943, that an amendment to an FHA instruction [2] was issued containing a list of minimum standards to be used as "general guides and applied with sufficient flexibility to meet local needs and conditions."

Current FHA instructions provide that "land development will be an integral part of farm development and will include such items as fencing, clearing, leveling, terracing, draining, and irrigating system, development of permanent pastures, woodlots, and orchards and application of basic soil amendments, fertilizers in connection with permanent conservation practices." Twelve minimum standards for land development are listed as follows:

1. *Prevention of erosion.*—All practicable means to prevent erosion will be taken in all cases where there is danger of wearing away of soil or loss of fertility from wind or water erosion. Land subject to damage by water erosion will be terraced or contoured, provided with grass waterways and diversion ditches, or otherwise improved as needed in accordance with approved conservation practices. Rolling cropland which does not lend itself to terracing or contouring and on which erosion is occurring should be returned to meadow, pasture, or forest. Soil-binding crops, including trees, will be planted where most effective in controlling erosion.

2. *Basic soil treatment.*—In cases where the need for basic soil treatment is established definitely, such treatments as the application of lime, phosphate, and potash will be made under conditions where profitable response has been demonstrated in practice. Provision also may be made for proper conservation of farm manures.

3. *Permanent pastures.*—Permanent pastures will be established where needed as a part of the farming system. They will be improved by seeding, fertilizing, fencing for rotation or deferred grazing, removing brush, weeds, and so forth, when essential to the effective operation of the farm.

4. *Permanent forage or hay crops.*—Permanent forage or hay crops

[2] FSA Instruction 621.1 (Aug. 22, 1942).

adapted to the area must be established on farms where such crops are essential to soil building and conservation.

5. *Drainage.*—In cases where drainage is necessary for economic and effective use of land, such drainage will be provided. Either drain tile or open ditches may be used, whichever is the more practicable and satisfactory method. In developing such plans, consideration must be given to local and State drainage regulations.

6. *Water facilities.*—In cases where there is need for the installation or repair of such water facilities as wells, ponds, windmills, farm distribution systems, and small irrigation systems, plans will be made for such purposes. It is important that consideration be given to making plans for placing existing installations in good working condition as a prerequisite to loan approval. Leveling and grading, when essential, also may be included. Livestock watering facilities will be provided to the extent necessary to insure successful operation of livestock enterprises.

7. *Farm layout and fences.*—Fields will be arranged to facilitate the most economical and convenient operation of the farm and most practicable use of the land. In the construction of fences, consideration will be given to the protection of the garden, desirable arrangement of the farmstead, the contour of the land, and pasture development. Permanent interior fences should not be constructed until careful analysis of farm organization has determined the best location of fields with relation to each other and to nonportable buildings.

8. *Weed eradication.*—Measures to prevent and eradicate harmful infestations of weeds will be taken where economically feasible and practicable.

9. *Home orchards.*—Where practicable, home orchards of locally adapted fruits should be encouraged. These orchards, in general, should be limited to the number and variety of trees required to meet demands for home consumption. Borrowers should be willing and able to provide the necessary care to insure reasonable success.

10. *Land clearing.*—In cases where clearing of land is necessary to round out the unit, it will be completed as quickly as possible to avoid undue delay in obtaining maximum production. Land clearing may include such operations as removal of trees, stumps, brush, stones, old orchard trees, and the like.

11. *Reforestation.*—The planting of trees for timber, poles, fence posts, and similar purposes, including field and farmstead windbreaks and the improvement of timber stands, will be encouraged where such development materially strengthens the farm economy and offers an important source of future income.

12. *Landscaping.*—Landscaping of grounds, including the planting of shade trees, lawn grass, and shrubbery, to make the surroundings of the dwelling attractive and homelike in appearance, will be encouraged with emphasis on the use of native materials and participation by the borrower and his family in such development.

Standards are flexible.—Neither the minimum standards for construction and repair of buildings nor the minimum standards for land development are rigid or inflexible. FHA instructions say "good judgment is required in interpreting and applying such standards to local conditions and individual circumstances." With respect to building standards, it is stated "em-

phasis on the letter rather than on the spirit of certain requirements may do more harm than good. On the other hand, concessions that involve compromising the whole principle of minimum standards must be avoided."

Both with respect to land development and building standards, it is provided that "the State director is authorized where necessary in order to meet local conditions to make additions to the minimum standards quoted above."

The Farmers Home Administration has always recognized that it is unwise to force standards upon borrowers. This attitude is revealed by statements in current instructions reading "when it develops in the course of the negotiations with the farm-ownership applicant that he is not in accord with the minimum standard (for land development or construction and repair of buildings) the remedy is not to force him to accept such standards against his will. On the contrary, the remedy is to refrain from making him a farm-ownership loan. Every effort should be made to remove every question of doubt as to the applicant's attitude toward minimum standards before final commitment is made with respect to his loan." [3]

As a matter of fact, no great difficulty has been experienced in securing acceptance of minimum standards by applicants. In general, the standards are strictly in line with their desires and aspirations.

Noteworthy Problems and Experiences Encountered in Developing and Carrying Out FHA's Land Development Policies

Policies with respect to the development and improvement of farm-ownership farms have been hammered out on the anvil of experience. Starting with a few declarations of basic principles, additions and amplifications have been made as problems have arisen. A comparison of the first instruction with those now in effect reveals a few changes in policies or points of view but on the whole it has been more a case of amplification and clarification than of change.

The policy governing the selection of farms is one which has undergone change. The first instructions which went to the field provided that "productive farms should be acquired. Per acre yields should, in general, be above the average for the area, as shown by the analysis on the appraisal report and records of the farm under the agricultural conservation program. The natural productivity of the soil must not have been destroyed. Completely worn-out farms should not be purchased with a view to rebuilding their productivity. The farms selected should be productive now and productivity carefully guarded by a sound farm and home management plan. These general statements should not be so interpreted so as to preclude the purchase of temporarily neglected land that will respond quickly to good treatment, or to the purchase of farms on which buildings and improvements are somewhat rundown . . . farms should be relatively free of erosion, well drained, and have soil types generally recognized in the community as the more productive type . . . farms having adequate improvements are usually preferred . . . farms selected for this program should be located in progressive communities where satisfactory roads, schools, markets and

[3] FHA Instruction 423.1, V (June 23, 1947) and FHA Instruction 424.1, III (June 20, 1947).

other community facilities are or will be available with a reasonable tax rate on farms. Communities in a state of decline are to be avoided. . . ."

There is nothing wrong with the foregoing policy if it is considered solely from the standpoint of reducing farming hazards and safeguarding the interests of lenders. There is something wrong with the policy if it is considered from the standpoint of accomplishing the purposes of the Bankhead-Jones Farm Tenant Act to "correct the economic instability resulting from some present forms of farm tenancy." The great bulk of the farm tenants, farm laborers, and share croppers whom the Bankhead-Jones farm-tenant program was designed to assist do not reside on the better land with better than average yields nor can they be moved in any significant numbers to those better lands in progressive communities. It is often more important to correct the causes of community decline than it is to move folks to thriving communities.

This defect in the original policy statement was very quickly recognized and remedied. In August 1938, 9 months after the policy was released, a revised policy was issued which stated "no farms should be purchased in areas designated for retirement from agriculture by Federal, State, or county land-use planning agencies, or areas so poor that they are likely to be so designated when land-use studies are made. Outside of such areas both good land and poor land is being farmed. Poor land areas may be approved for purchase but only when they are available at prices in line with their earning capacity and only when they constitute economic farm-management units."

That policy has persisted. There has been slight change in its wording and no real change in its meaning. It is a policy which permits dealing with problems where they exist.

The safeguards set forth in the policy just quoted are important. Since it takes more acres to suport a family on low grade land than to support the same family equally well on high grade land, that fact must be taken into account in establishing efficient family-type farms. Since low grade land tends to be over-priced in comparison with high grade land, it is important to avoid paying too much for such land.

Instructions issued in January 1938 said "For the most part it is believed that farms can be acquired where only minor repairs will be found necessary." It was recognized, however, that "in certain areas the necessity of securing good farm land may require the purchase of farms on which improvements require considerable expenditure for repairs . . ." But on the whole, the policy at the start leaned more toward selecting "ready-made" farms requiring little change or alteration than was subsequently found wise or desirable. In fact, it soon became evident that converting under-improved and underdeveloped farms into efficient family farms is a greater achievement than transferring eligible families to the limited number of good farms already in existence.

Cooperating With Soil Conservation Service

Early in 1938, the Farm Security Administration requested and received the cooperation of the Soil Conservation Service in developing basic soil conservation plans for farm-ownership borrowers. The following is

quoted from a letter sent March 4 by the Director of the Farm Ownership Division to all regional directors:

It is desirable that basic soil conservation practices, wherever needed, should be worked out and included in the long-range farm-management plans for tenant-purchase (farm-ownership) borrowers. To accomplish this, it will be helpful if our own supervisors can have the technical assistance of the Soil Conservation representatives. Accordingly, I have asked Mr. Dillon S. Myer, Assistant Chief of the Soil Conservation Service, the extent of the assistance which the Soil Conservation Service migh provide. He has informed me that,

> ". . . 110 of the counties selected for making tenant-purchase loans are wholly or in part within Soil Conservation Service project or camp areas or Soil Conservation districts. For these counties especially we will be glad for Soil Conservation technicians to cooperate with your supervisors and borrowers in the formulation of soil conservation plans so far as the time of the technicians, will permit, provided, of course, this work is done in cooperation with the State Extension Services."

The report of the Farm Ownership Division for the period September 1 to December 31, 1939, contained the following statement under the heading "Soil Conservation Plans Required for Tenant Purchase Loans."

On Friday, December 22, 1939, Secretary Henry A. Wallace announced important changes involving all of the programs of the Department of Agriculture that affect land use, in order to get more conservation of soil, forestry, and human resources through complete coordination of the Department's land use and rehabilitation programs. Immediately affected by the Secretary's orders were the Agricultural Adjustment Administration, Farm Security Administration, Soil Conservation Service, Bureau of Agricultural Economics, Forest Service, and the Extension Service.

In a covering letter to regional directors, implementing the Secretary's orders, the Administrator of the Farm Security Administration stated with respect to TP loans:

> "The farm and home plans for all tenant-purchase loans shall be coordinated with area land and conservation plans when such plans have been developed, and when possible shall be accompanied by a conservation plan for the farm developed with the technical assistance of the Soil Conservation Service or the Extension Service.
>
> "*a.* Loans for land improvement, water conservation, or sanitary facilities, permissible under the Bankhead-Jones Farm Tenant Act, should be incorporated in the original tenant-purchase loan."

This statement reemphasizes the policy regarding basic soil conservation plans for TP borrowers which has been followed by the TP Division from the inception of the program. Heretofore in practically all instances where the technical assistance of the Soil Conservation Service or Extension Service soil specialists were available, conservation plans have been worked out for individual borrower's farms; hereafter, such conservation plans must accompany the farm and home plans for all TP loans when the necessary technical assistance is available from the cooperating agency.

Experience under the foregoing policy has been gratifying. A better job of land development and improvement has been accomplished by virtue of the services rendered by trained technicians of the Soil Conservation

Service than would otherwise have been done. The services have not been available in all States or localities, but it has extended far beyond the 110 counties referred to in 1938 by Dillon Myer. It is possible that in some instances county supervisors of the Farmers Home Administration have become over-dependent upon Soil Conservation Service employees and have neglected to undertake the task of helping borrowers develop long-range soil conservation plans when soil conservation technicians have not been available. In developing soil conservation plans for individual farms, employees of the Soil Conservation Service have prepared maps indicating the slope of the land, desirable lay-out of fields and fences, portions of farms which should be kept in timber or under permanent grass cover, where terraces are needed, where row crops may be grown without subjecting land to erosion and so forth.

Current instructions provide "when it is necessary to purchase lime and fertilizer needed for extensive basic soil treatment the cost may be financed from farm-ownership loan funds. On the other hand, the cost of lime and fertilizer needed at periodic intervals to maintain the soil productivity should be financed by operating funds. The cost of annual maintenance of terraces for example is a cost attributable to annual operation whereas the cost of running the contour lines and the initial building of terraces are permanent improvement items. . . . Land clearing, stump removal, tile drainage ditches, permanent canals or laterals, and the like, are considered permanent improvements for which farm-ownership loans may be advanced."

Another policy necessitated by legal limitations on investments in farm-ownership farms reads as follows:

When a farm-ownership applicant has funds of his own to apply toward the purchase, enlargement, or development of a farm, such funds will not be held back for making additional and unapproved expenditures.

Pioneering in the Field of Rural Housing

So characteristic are farm-ownership houses, barns, and other outbuildings in their architectural design, arrangement and even in their color [4] that they can be readily identified in many communities, particularly in Southern States where loans have been most numerous. The influence of FHA policy is sometimes more evident in farmstead buildings than it is in good crop and livestock practices observable in fields, pastures, herds, and flocks. It is, in fact, easier to achieve conformance with minimum construction standards than it is to achieve conformance with minimum farming standards.

In June 1939, the author made the following statement to regional farm-ownership chiefs assembled in Washington, D. C., for an annual policy conference:

We are pioneering in the field of improving rural housing. Our minimum building standards as applied and translated are resulting in better rural homes.

Just as there is not complete agreement as to how big a family-size farm should be and what it should cost, so likewise there has not been perfect agreement as to what kind of homes our borrowers should live in. There

[4] In many Southern States, barns and outbuildings on farm-ownership farms have been covered with green stain which protects their surface and improves their appearance. This has marked them as farm-ownership farms.

are those who advocate letting the borrower work out his improvements by the sweat of his brow after he acquires ownership. Others point to the fact that when a borrower really pays for a farm out of its earnings, as our borrowers will have to do, there will be little if any surplus remaining for even modest investment in permanent improvements.

Informed persons who base their judgment on observations of what we are actually doing have agreed for the most part that our borrowers are not investing excessive amounts at the outset in repairing and improving their property. We are building houses in the warmer climates for costs ranging around 12 to 15 hundred dollars and in the areas subject to severe winters at costs of around $2,000 to $2,500. This cannot, by any American standard, be considered excessive. In this connection we have to contend with an inferiority complex among the farm people themselves. Many farmers are reconciled to extremely low housing standards. This, notwithstanding the fact that the Nation is supporting a program of slum clearance in cities where the poorest of houses are superior to many of those in the open country. Farmers need to be aroused on this point . . .

The farmer himself should set the pattern for the kind of rural homes we are to have in this country. This is one place where he can ultimately have his cake and eat it too; that is, values and prices will tend to adjust themselves around living standards. It is these broader aspects of the question which our supervisors and our committees should think about as they participate in the administration of this Federal program designed to "promote more secure occupancy of farms and farm homes and to correct the economic instability resulting from some present forms of farm tenancy."

A year later the following statement was addressed to 4,500 members of 1,500 county FHA committees assembled in schools devoted to a consideration of farm-ownership problems related to the administration of the Bankhead-Jones Farm Tenant Act:

The nature of the repairs and improvements placed on tenant-purchase farms is a subject of public interest. A few minimum standards are established in FSA regulations. They are related to the health of the families and to safeguarding the security of the Government. There has been no significant criticism of these standards. They are generally accepted as necessary and reasonable. Beyond that, the character of the repairs and improvements placed upon tenant-purchase farms is a matter of agreement between the borrower and representatives of the Farm Security Administration. In this situation the borrower is recognized as "party of the first part." Statements that a borrower is compelled to do this or is compelled to do that are not consistent with policies laid down by the Farm Security Administration. The borrower has the benefit of advice, based upon considerable experience gained during the past 3 years, but he is free to render his own decisions with respect to matters outside of the limited and reasonable minimum standards referred to above. Policies also permit borrowers to keep their debt obligations down to a minimum by performing such labor in connection with repairs and improvements as they are qualified to do and can spare time to do. In this connection, however, it is obvious that there must be some safeguards thrown around the money loaned for repairs and improvements. There must be some provision against exhausted loan funds and half-finished construction. There must also be some safeguards against unreasonable delays in carrying out the terms of the loan agreement.

FIGURE 19.—Before (top) and after (middle) home of Thomas Gill, route 2, Quinton, Okla. At bottom, the old house still stands near Clay Pettyway's new residence, but now is used only as a storehouse and a reminder of how much his living conditions have improved since becoming an owner of his farm.

Using experience gained on resettlement projects.—Responsibility for administering title I of the Bankhead-Jones Farm Tenant Act was assigned to the Resettlement Administration about the time resettlement projects activities began to decline quite sharply. In chapter II it was pointed out that:

A great deal of useful experience had been accumulated on resettlement projects with respect to housing. Plans and specifications had been prepared for a number of different styles and patterns of low-cost dwellings, barns, chicken houses, and other buildings. A staff of architects and construction engineers had been employed and a large amount of experience had been gained in actual construction by the contract method and by force account. All of this experience and talent was available to those who directed the farm-ownership program.

From the outset FHA policy has required that, "except as otherwise authorized by the Administration," improvements on farm-ownership farms be made by the buyer rather than the seller. Conceivably, the opposite of this policy might have been followed in whole or in part. The seller might have been required to make specified improvements with the understanding that when they were completed in a satisfactory manner the borrower would pay an agreed price for the farm.

Since exceptions to the general rule have rarely if ever been authorized, it is impossible to tell how satisfactory it would have been to have operated under such a policy. It may be assumed, however, that many vendors would be indisposed to bother with fixing places up to suit the conveniences and desires of others. To attempt to do so might open the way for disputes and litigation and encourage objectional "side agreements." Furthermore, each borrower naturally wants to plan things for himself. He wants to observe and participate in the fulfillment of plans, perhaps make changes or alterations while construction is in progress.

Time and skill required.—To what extent is it wise for a borrower to build his own house, barn, and other buildings? Many hold the view, not without foundation, that the typical farmer is a versatile person and the master of many skills, including those associated with carpentry, masonry, and plumbing. Experience has proven, however, that many farm-ownership borrowers who have operated as farm tenants and share croppers are not skilled in such things. It is the exceptional borrower who is qualified to act as head carpenter in building his own residence. More of them are qualified to act in such a capacity in building barns, poultry houses, etc.

Skill is not the only question involved, however. Time is an important consideration. Many borrowers have elected to do more of the construction work on their farms than it has been possible for them to do without neglecting their farming activities.

Policies formulated with respect to methods of performing construction and land-development work have been the outgrowth of all these considerations. Current instructions provide:

Construction and land-development work will be planned for performance (1) by or under the direction of the borrower, (2) by contract, or (3) by a combination of both methods. The county supervisor and the engineer

will reach an understanding with the applicant as to the best method to be used in performing construction and land development.

Generally, the borrower will be expected to perform the construction and land-development work which he is qualified to perform and which he can do without interfering with efficient farming operations.

Construction and land-development work may be performed by or under the direction of the borrower only when (*a*) a careful analysis of his farm and home plan reveals that he can carry on his farming operations and complete the work within the established time limit, and (*b*) he possesses the necessary desire, skill, technical knowledge, and managerial ability to complete the work satisfactorily.

Immediate construction and land development work performed by or under the direction of the borrower will be planned for completion as soon as practicable, but not later than 15 months after he occupies his farm as owner.

Except for the construction and land-development work to be accomplished by or under the direction of the borrower, all farm development will be done by qualified contractors. Every practicable effort should be made to perform work by contract when this method is applicable. The county supervisor, upon the recommendation of the engineer, is authorized to approve plans and contracts for farm development.

Immediate farm-development work performed under contract will be planned for completion as soon as practicable, but not later than 15 months after the borrower occupies his farm as owner.

An FHA instruction entitled "Performing Farm Development" [5] covers many additional details related to farm-development and construction work on farm-ownership farms whether it be done under the direction of the borrower, by contract or by a combination of the two methods. Some of the points covered in this instruction are: Preparation of bid docket, securing bids, opening bids, awarding contracts, executing surety bonds, periodic inspections of construction work in progress, final inspections, and payment of contractors.

Problems Encountered in Accomplishing Construction by Contract Method

No great difficulty had been experienced in inducing contractors to bid on construction work on rural resettlement projects prior to the inauguration of the farm-ownership program. Those projects covered limited areas. There were as many sets of farm buildings to be constructed within limited project areas as there were farmers on each project, sometimes 100 or 200. Often in addition to buildings on individual farms, there were community center buildings such as school houses, recreation halls, stores, gins, etc. These features naturally appealed to contractors, but they were lacking in the case of widely scattered farm-ownership farms. Of course, when plantations were subdivided into individual farm units which were purchased by farm-ownership borrowers, there were sometimes a large number of sets of farm buildings to be constructed in a limited area. On the whole, however, there was at the outset a shortage of contractors willing to bid on construction jobs on farm-ownership farms. On December 19, 1939, the author sent the following letter on this subject to all regional directors.

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In recent weeks I have observed something of the problems being encountered in the field in connection with the repair and construction phases of the TP program. These problems include:

1. Inability of engineers, owing to shortage of personnel, to keep up with the job of planning and estimating the cost of repairs and new construction.
2. Failure of contractors to bid when bids are called for.
3. Tendency for the lowest contract bids to exceed the cost of doing the same job by force account.
4. Delays in getting jobs done by the contract method.

All these difficulties, and the possible desire in some instances to evade the prevailing wage requirement that applies to contract jobs, are resulting in a general shift to the force account method.

I have discussed these matters with Baird Snyder,[6] as well as with TP men and have come to the conclusion that our salvation lies in overcoming these present difficulties and putting the bulk of our new construction work on a contract basis just as rapidly as possible. One needs only to observe the activities of a county supervisor who has several force account new contruction jobs going on under his direction to realize that we simply can't handle a big program successfully that way. The TP program is likely to become a big program sooner or later and if we meet our responsibilities creditably we will lay the right kind of foundation now and be ready for expansion when it comes. That might be next year, so there is no time to lose. . . .

For example, one thing that is slowing down the engineering service and adding to its cost is the demand of individual borrowers for special sets of building plans and specifications. . . . The engineering staff will add to or modify our standard sets of plans as need is apparent, or as occasion requires, but we must not ask them to make individual plans for individual borrowers. . . .

There is no thought of depriving the borrower of the free right to choose some plan and set of specifications other than our own that we can approve, but we cannot meet the costs of such plans for him, nor can such costs be covered in his loan. . . .

The differences in price between contract and force account jobs tends to diminish under experience and competition. The differences that remain are due to costs of bonds and liability insurance that are worth what they cost to the borrower. In other words, it is doubtless to the disadvantage rather than the advantage of the borrower to assume personally the risk of suits arising out of accidents to unprotected workers.

The prevailing wage policy appears to be working out well and attempts at evasion through shifting to force account will lead only to applying the prevailing wage requirement to force account. The force account procedure is to permit borrowers, particularly on small construction and minor repairs, who are qualified builders, to keep down the loan by doing their own work. This is a desirable provision which should not be jeopardized by abuses of any kind.

In conclusion, I again emphasize the fact that many of our present problems are inherent in a new program. In the relatively near future, we should have established satisfactory relations with reliable contractors and

[5] FHA Instruction 424.3 (July 15, 1948).
[6] Director of Engineering Division, Farm Security Administration.

builders in every community who know our standards, our plans and specifications. We should lend every possible cooperation to the engineering staff in reaching this desirable goal. It is one of the essential prerequisites to future growth. Will you please see that all field personnel concerned are properly instructed in this matter.

Noteworthy Progress in Farm-Ownership Construction Halted by World War II

Problems set forth in the letter quoted above yielded by degrees to the remedial measures suggested and an ever-increasing number of contractors submitted bids on farm-ownership construction jobs. By the beginning of 1942, the contract method had become the method by which a large part of the construction work was being done on farm-ownership farms, but all of this was brought to a sudden halt by the advent of World War II.

On April 9, 1941, the War Production Board issued conservation order No. L–41 establishing limits on all construction work in the United States not specifically authorized by it. The farm-ownership program was affected primarily by a $500 limit established on residential construction and a $1,000 limit established on agricultural construction. Administration Letter 524, sent out with a procedure notice dated April 27, 1942, authorized deferment of construction on tenant-purchase (farm-ownership) farms. It contained this statement:

Deferment of construction on TP farms is herewith authorized to the extent made necessary by shortages of labor or materials, or by official orders limiting construction. Minimum improvement standards set forth in paragraph V of FSA Instruction 621.1 may also be deviated from for the duration to the extent made necessary by the war emergency, but there should be no permanent lowering of minimum standards and the FSA should go just as far as possible now in providing the essential safeguards to health and well-being of FSA borrowers.

Many problems were posed by wartime building restrictions. Borrowers found themselves paying interest on money which could not be expended as planned for construction purposes. In due course of time, provision was made for applying these frozen balances as extra payments on farm purchase debts with the understanding that supplemental loans could be obtained after the war to finance deferred construction. As soon as practical, arrangements were made for advancing only such portion of each borrowers loan as was needed immediately for purposes other than deferred construction. Funds for planned future construction were withheld. How to estimate the cost of future construction on rising wartime markets, however, posed a serious question to which no perfect answer was available. These were but a few of the temporary problems created by the war.

The permanent effects of the war upon farm-ownership construction are of primary importance. To say the least, they will not be overcome for years. By the time building restrictions were lifted a large backlog of deferred construction had been built up. Few, if any, of the cost-estimates on deferred construction were high enough to meet the cost of labor and material prevailing after the war. Many borrowers were indisposed to proceed with planned construction because of the high postwar costs. Some borrowers

paid their loans in full before planned construction was completed. Many such farms remain substandard from the standpoint of the health, comfort, and convenience of their occupants and they do not reflect as creditably as they should upon the farm-ownership program.

Second Dwellings on Farm-Ownership Farms Would Facilitate Their Transfer From Parents to Married Sons or Daughters

Farmers Home Administration instructions, like those of administrations which have preceded Farmers Home, are silent on the subject of second dwellings on farm-ownership farms. This is true despite the fact a second dwelling would often facilitate the transfer of a farm-ownership farm from elderly parents to a married son or daughter. Recognition of the desirability of preserving ownership within a family from generation to generation is found in the agreement signed by each borrower and his wife before they obtain a farm-ownership loan. It contains a clause reading as follows: "Should it become desirable for some younger member of our family to take over and carry on the operation and management of the farm, we will try to work out an arrangement that will preserve it as a home for us and maintain it also as a one-family farm."

The journal recording proceedings of the annual conference of regional tenant-purchase (farm-ownership) chiefs held in Washington, D. C., May 10 to 14, 1941, contains references to a discussion of second dwellings in regions where seasonal labor is required. The danger that such second dwellings might lead to "share-cropping arrangements" was recognized and "it was emphasized that there should be such an understanding with the borrower in all instances that the spirit of the one-family type ideal will not be violated by retaining a second dwelling."

Under the date of January 20, 1944, Congressman Harold D. Cooley of North Carolina transmitted to Administrator Frank Hancock, a letter from one of his constituents which said: "I want to build a small house so as to have my married son move to the place and help me farm same." Excerpts from Administrator Hancock's reply to Congressman Cooley discuss some of the issues involved in this matter:

. . . I find upon inquiry that permission to construct a second dwelling on tenant-purchase farms has generally been withheld in order to prevent a good one-family farm from being converted into two inadequate family farms. Permission has been granted in some cases, however, for the construction of second dwellings under circumstances similar to those reported.

From the beginning of the tenant-purchase program this has apparently been a difficult point on which to make a decision because it involves the purposes of Congress in promulgating the Bankhead-Jones Farm Tenant Act. This act was enacted to sponsor and perpetuate the family-type farm and make the owner-operator secure in his ownership. The farm (in question) was designed to support one family, and was so approved by the county committee. Therefore, it might not be capable of supporting two families, and if two families are trying to make their living there the history of such cases indicates that they will both ultimately fail. The question, therefore, is not whether two dwellings shall be constructed on a certain tenant-purchase farm but whether two families will attempt to make a living on resources that were specifically approved as a family-type farm. Further-

more, if the farm were larger than a family-type farm and capable of supporting two families we would be in the position of helping to perpetuate the conditions which the Bankhead-Jones Act was specifically designed to alleviate. This is no indictment of tenancy as such but it does have intimate bearing on the purposes of Congress expressed in the Bankhead-Jones Act.

At the same time, we do not want to place any obstacles in the way of adjustments to meet perfectly normal developments within family circles or the orderly transfer of farms from one generation to the next. When parents reach the age where they are no longer able to engage in hard labor it will often be desirable for a married son or daughter to take over and carry on. Often the young married couple will prefer a home of their own separate from that occupied by the parents. This is both understandable and desirable, provided it can be done without imperiling the financial position of the borrower or jeopardizing the Government's security.

Our purpose, therefore, is to find a fair and equitable medium between these two: Carrying out the purposes of the Bankhead-Jones Act by giving sufficient minimum security to protect the family's ownership of the farm and at the same time not creating an injustice on the family in that period of transition of ownership from one generation to the next. At the same time we feel that we should continue to do everything we can to prevent the subdivision of our tenant-purchase farms into units too small to support a family.

In order to clarify the situation I am now issuing instructions to the effect that each request for authority to construct second dwellings on farms of TP borrowers shall be considered and decided upon its merits but I wanted you to be aware of the problem involved in such cases.

Typically, when parents have sons or daughters of marriageable age, after marriage both young couples and parents may be reluctant to attempt living together in a one-family dwelling. When the housing problem cannot be satisfactorily solved, the married son or daughter, although really desirous of taking over the home place, may move elsewhere and become too well established to break away at some later date.

Practical problems standing in the way of a satisfactory two-dwelling arrangement may be thus summarized:

1. Inadequate earning capacity to support the capital outlay involved in two dwellings on a single family farm.
2. Determining whether managerial decisions will be made by the elder couple or the younger couple while both remain on the farm.
3. Using the second dwelling for housing share croppers and thus defeating the basic purpose of the Bankhead-Jones Farm Tenant Act.
4. Inherent danger of yielding to the temptation to subdivide an adequate family farm into two inadequate farms each with its separate set of buildings.

Destruction of Useful Buildings Not Sanctioned

It was never the intention of the Farmers Home Administration or its predecessors that useful buildings on farm-ownership farms should be destroyed in order that they might be replaced with new structures. The impression became rather widespread, however, that such a practice had official sanction. Cases have been cited in which overzealous employees have advised replacement of buildings with several years of useful life when

such buildings should have been repaired and utilized. The Journal of the Annual Conference of Farm-Ownership Chiefs held in Washington in March 1941 contains the following statement: "It seemed to be the general opinion that criticism of the program has resulted from the policy of destroying buildings which still had useful life and that the policy should be reshaped to meet this criticism."

Current instructions cover this point in the following language:

Funds should not be included in farm-ownership loans to repair old dilapidated structures which would be short-lived and unsatisfactory if they were repaired. Such structures should be demolished. Suitable new structures should be built if they are needed and essential to the successful operation of the farm. On the other hand, structures of value and potential usefulness should not be destroyed, but should be repaired. Good judgment is required on the part of all concerned in applying this policy.

Cost of Farm-Ownership Dwellings

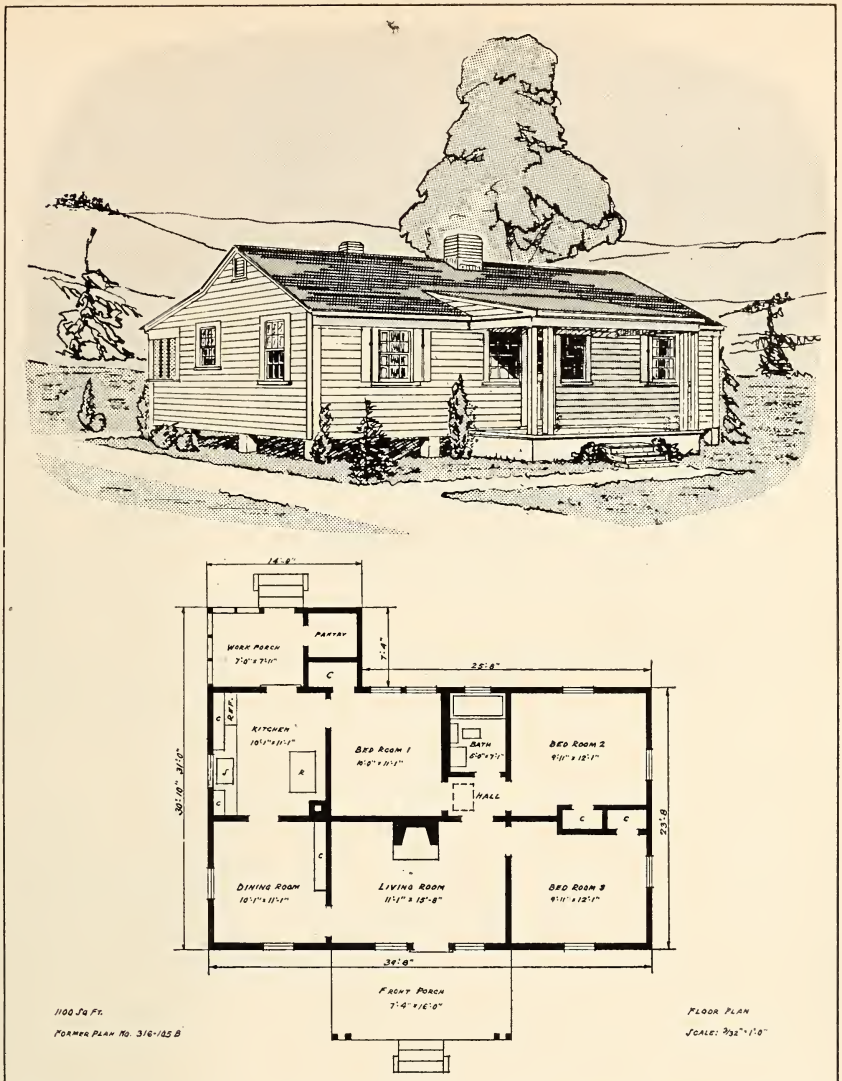
Out of approximately 53,000 loans made between the inception of the farm-ownership program in 1937 and December 31, 1948, approximately 22,800 have involved plans for the construction of new dwellings.[7] Most of the construction work on farm-ownership farms in the Middle West, Northeast, and Northwest has been in the nature of repairs and alterations of existing structures. Only in Southern States has it been a common, but not universal practice to erect a complete set of new buildings from the proceeds of farm-ownership loans. Typically, such a set of buildings has consisted of a house, barn, chicken house, smoke house, and sanitary privy.

The typical farm-ownership barn in Southern States, where a dairy enterprise is not involved, contains stall room for two or three mules and a family cow or two, a mow for hay storage and crib for corn and feed. In prewar days, such barns cost from $400 to $600, typical poultry houses cost around $100, sanitary privies around $40 and smoke houses around $75. Present costs are about double these amounts. Cash costs are often reduced by the use of materials available on the farm such as timber, salvage lumber, sand, and by labor furnished by the borrower.

There are a number of standard designs of houses for which the Farm Security Administration furnishes borrowers with plans and specifications. They have been developed for maximum economy of space utilization and simplicity of construction. The cost of different house-types of a given size for a given geographic area do not vary greatly. Under the date of June 29, 1949, Carl A. Johnson, engineer for the farm-ownership staff, submitted the following information relative to dwelling costs:

One of the more popular houses in the Southern States of Georgia, Alabama, and South Carolina has been our plan No. 316–105B (fig. 20). A floor plan and elevation of this house is included herewith. This house is a six-room house (three bedrooms, living room, dining room, kitchen, and bath room) of frame construction on masonry piers. Interior V-joint or beaded ceilings; exterior sidings, clapboard, drop siding, or asbestos cement shingles; roofing, 5 V crimp, 28 gage galvanized metal, or 210# asphalt

[7] This number is exclusive of project farms transferred to the farm-ownership program.



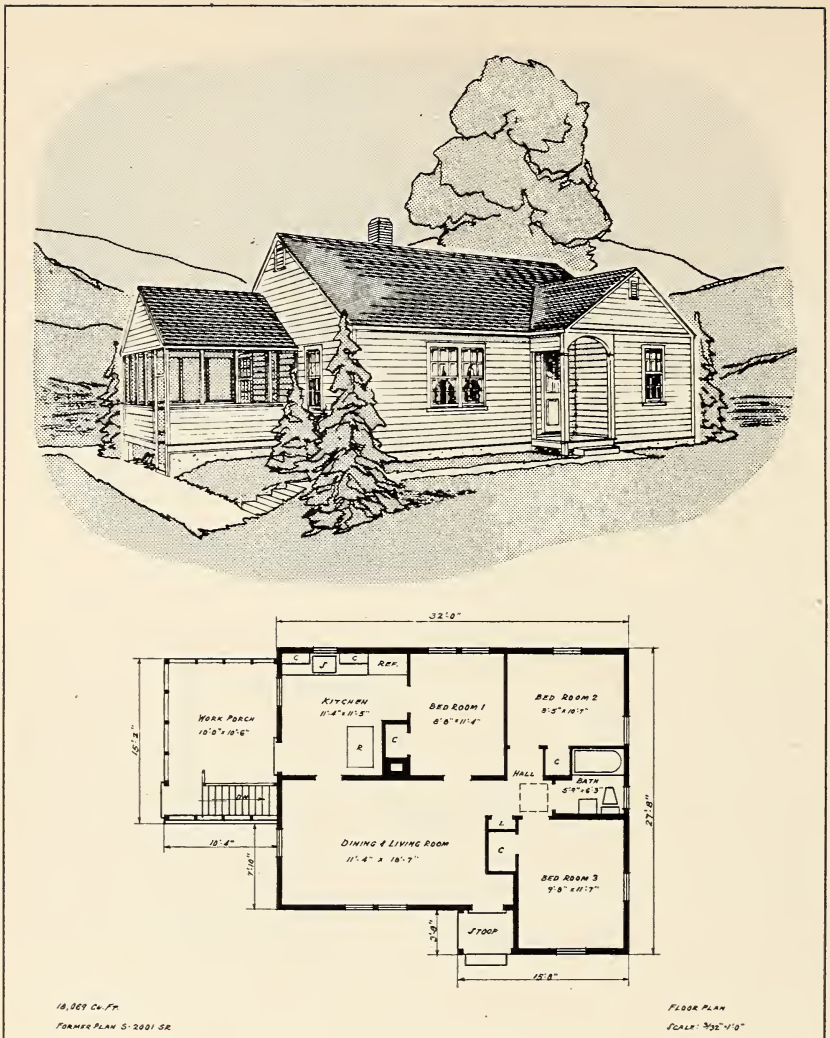
HOUSE NO. H6-10
FARMERS HOME ADMINISTRATION

FIGURE 20

shingles; flooring, oak or pine edge grain; wired for electricity; subfloors but no storm sheathing; 15# building felt between studs and exterior siding; space provided for bathroom but no bathroom fixtures.

Our records indicate that the cost of the above house constructed by contract has averaged as follows:

1940	*1941*	*1942*	*1943*	*1944*	*1945*	*1946*	*1947*	*1948*
$1,400	$1,435	$1,600	$1,810	$1,930	$2,000	$2,500	$2,900	$3,300



HOUSE NO. H5-23
FARMERS HOME ADMINISTRATION

FIGURE 21

Recent reports from the field indicate that this house, having a floor area of 1,084 square feet, can now be constructed at a cost of about $3,150, estimated from recent bids received on a slightly smaller house (1,000 square feet) ranging from $2,800 to $3,000.

A typical farm dwelling suitable for more rigorous climates and which has proven popular in the States of Indiana, Illinois, Ohio and Iowa is our standard plan 2001–B (fig. 21). I am including herewith a floor plan and

elevation of this house. New-house construction in these States has necessarily been very limited and it is not possible to present actual figures beyond the year 1944. From 1945 on the figures are estimated and not based on actual bids.

The above house is a frame house containing three bedrooms, bath, dining-living room, kitchen, and work porch. Although the house plans provide for bathroom and central hot-air heating, the contracts upon which our cost records are based did not include central heat or plumbing. The floor area of the house is 968 square feet, with basement of 816 square feet, concrete basement floor and walls, double floors with oak finish flooring; interiors lath and plaster; exterior, sheathing and red cedar siding; roofing, wood shingles or heavy asphalt shingles. Average costs of this house by years based on contract let through 1944 and estimates thereafter are as follow:

1940	*1941*	*1942*	*1943*	*1944*	*1945*	*1946*	*1947*	*1948*
$2,800	$3,100	$3,450	$3,900	$4,500	$4,800	$5,700	$6,300	$7,500

As the above figures indicate, construction costs of farm-ownership farms increased greatly during postwar years just as they increased in cities, towns, and villages throughout the land. A peak appears to have been reached late in 1948.

On February 7, 1949, the following statement on the cost of dwellings then under construction was submitted by the Farmers Home Administration to a subcommittee of the Senate Committee on Banking and Currency:

Under the farm-ownership program it is estimated that at the present time approximately 540 new dwellings are in the process of construction. The estimated number and cost by areas is as follows:

	Number of dwellings	*Average cost*
South	450	$3,000
East	10	9,000
Midwest	20	7,500
West	20	9,000
Puerto Rico	25	1,700
Hawaii	15	4,000

Chapter X

SUPERVISING FARM OWNERSHIP BORROWERS

Charting a course.—As related to the subject of this chapter, "charting a course" means formulating plans for operating a farm-ownership borrower's farm so the borrower will successfully manage his financial affairs and attain important objectives which he and his family have in mind for their future welfare and happiness. The borrower and his family are "the parties of the first part" in this undertaking. Their destinies are at stake and it is their right and privilege to initiate the plans which involve their future welfare.

The Federal Government likewise has an interest and an obligation in the matter. It is by virtue of a Federal loan or a loan guaranteed by the Federal Government that a family is able to buy, enlarge, or improve a farm-ownership farm. The law which authorizes the loan requires that good farming practices be followed and that farms offered as security for loans be maintained in good repair. The spirit and the letter of the law can be fulfilled only when there is every reasonable assurance that these things will be done. It is, therefore, a responsibility of the Government to seek such assurance.

The philosophy motivating the Farmers Home Administration in carrying out its supervisory responsibilities is discussed in chapter VI under the heading "An Applicant Should Understand the Benefits and Obligations Involved Before a Loan is Made." In this chapter the manner in which planning and supervising are accomplished and the manner in which they are related to the success of borrowers will be illustrated by actual examples of long-range farm and home planning, annual planning and budget making, record keeping, checking and analyzing borrowers, annual income returns, and holding annual business and educational meetings of borrowers.

Farm and Home Plans

The Huff family obtain a farm-ownership loan.—On August 17, 1940, Corby and Ermine Huff received a loan of $7,740 from the Farmers Home Administration, with which they bought and made necessary repairs and improvements upon a 103-acre farm located 6 miles southeast of Munfordville in Hart County, Ky. They were then 43 and 38 years of age, respectively. They had four sons and a baby daughter. Mr. Huff had completed the fifth grade in school and Mrs. Huff the seventh grade.

The Huffs started married life as share croppers on a farm located in the poorer land area of western Hart County. They owned nothing but one cow, which was a gift from Mr. Huff's father. Their income was

around $300 a year. Mr. Huff said: "The little old shack we lived in on that farm wasn't fit for a mule to live in. We left there, using a borrowed team and wagon, and we borrowed the money to pay the toll across Green River Bridge at Munfordville."

The Huffs improved their circumstances by this "move across the river." For 5 years they operated the Craddock River Farm. Here, after 2 years, they made the transition from share croppers to renters. Mr. Craddock, who was president of the Hart County Deposit Bank as well as owner of the farm, made them the loan to purchase needed livestock, tools, and equipment.

The Huffs took another step up the agricultural ladder when they moved to another Craddock farm of 195 acres of very good land. Here they remained for 12 years. Their average annual income was about $1,000. They built up their dairy herd. From the Hart County Deposit Bank they borrowed operating capital and money with which to purchase fertilizers and young ewes to replace aged sheep. That they gained the confidence and friendship of their banker-landlord is revealed by the following statement by Mr. Huff:

I saw an article in the paper about the tenant-purchase loan program of FSA and I asked Mr. Craddock about it. His reply was, "Corby, you and your family deserve to have a farm of your own but the bank cannot give you the terms and interest rates which you would get from the FSA and you would be safer borrowing from them than from any other source. Then, too, none of us are ever too old to learn if we want to, and you can profit from the advice the Department of Agriculture will give you in such a supervisory program and I will do all I can to help you get the loan."

The Huff's long-range farm and home-management plan.—Mr. Huff did get the loan. With respect to the farm he bought he said: "When I moved here (January 1, 1941) this farm was in bad shape. It was all cut up with gullies and much of it was covered with sassafras brush like the land you see across the fence there."

It is the farm and home plan developed by the Huff family with the aid of the county supervisor of the Farmers Home Administration for the improvement and operation of this run-down 103-acre farm in Hart County, Ky., which we shall now discuss.

A plat of the farm prepared by the county supervisor in the fall of 1940 is shown in figure 22. It will be observed that each field is lettered and its approximate acreage indicated. The 5-year cropping plan for each field is summarized in table 16.

A "narrative Farm and Home Improvement Plan" was drawn up which indicated in detail every phase of the cropping system and general farm practices to the followed; the livestock program; plans for gardening and fruit production and for canning and storing fruits, vegetables and meats; plans for improving and furnishing the home; plans for developing the yard and surroundings; plans for improving sanitation and health and for educating the children. That comprehensive long-range plan, except for the omissions indicated, is quoted in full as follows:

TABLE 16.—*Cropping plan of Huff farm showing crop rotations, 1941-45*

Field No.	Acres	1941	1942	1943	1944	1945
A	19	Corn and tobacco	Barley P	Hay	Grass	C and T.
B	5	do	do	Grass	do	Grass.
B_1	13. 8	Hay	Grass	C. and T	Barley P	Hay.
C	18. 5	Grass	Corn	Barley P	Hay	Pasture.
D	14	Barley pasture	Hay	Grass	Corn	Barley P.
D_1	5. 5	Grass	Grass	C. and T	Alfalfa	Alfalfa.
D_2	5. 5	Alfalfa	Alfalfa	Alfalfa	Corn	Barley P.
E	9. 2	Permanent pasture	P. P	P. P	P. P	P. P.
F	2	Locust	L	L	L	L.
G	3. 3	Cedar Knob	C. K	C. K	C. K	C. K
H	.8	Woods	W	W	W	W.
I	1. 5	Farmstead	F	F	F	F.
J	1. 5	Garden	G	G	G	G.
K	.6	Barn and lot	B. and L	B. and L	B. and L	B and L.

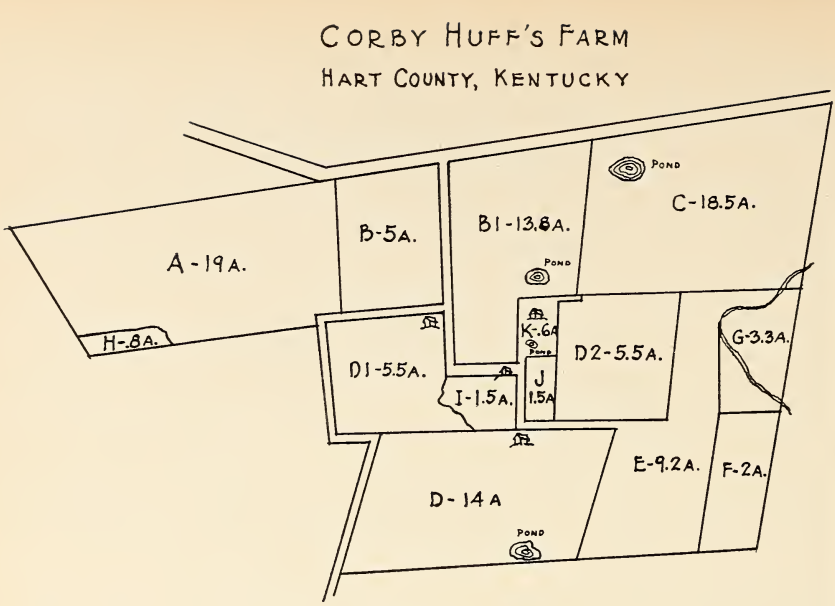


FIGURE 22

NARRATIVE FARM AND HOME IMPROVEMENT PLAN

We, Corby Huff and Ermine Huff, of Munfordville, Ky., in consideration of a loan and other assistance from the Farm Security Administration, agree to carry out the following Farm and Home Improvement Plan as far as it is possible to do so. In case it is impossible to carry out any part of this plan, we will notify the Farm Security Administration representative and ask for a release from this particular part of this plan and make such changes as are necessary.

CROPPING SYSTEM

The farm for which we are planning and expect to purchase under the tenant-purchase program of the Farm Security Administration, will be arranged as shown on the attached map. Our cropping and improvement plan for each field of the farm, has, or will be, worked out on the basis of this map, the letters of each field corresponding to our plans for cropping and improving each field as outlined.

Field A: Field A contains 19 acres, and is now grown up a good deal in bushes, not having been tended for a number of years. I plan to clear this field and put corn and tobacco here in 1941. There are several very good portions or spots in this field and we will use the better parts for our tobacco land. The tobacco base for 1940, is 3.4. I am going to work on this tobacco base and I believe that it can be raised to 4 acres within the next 4 years. I am going to sow barley or a suitable mixture on this field, following my corn and tobacco and these will be pastured in 1942. On this cover crop I will sow a mixture of grasses and legumes as recommended by the Farm Security Administration. This field will be cut for hay in 1943 and used for pasture in 1944. If the filth (noxious weeds and brush) on this field is not reduced enough, I plan to turn under the cover crop in

1942 and raise corn here again if it is not suitable to leave, due to filth still remaining. If this is the case, then, following corn in 1942, we will sow cover crop and leave to be pastured in 1943, a desirable grass and legume mixture showed on the cover crop and to be cut for hay in 1944 and pastured in 1945. When this rotation can be fixed, this field will only be cropped with corn and tobacco every 4 years. Right now, this field will make 30 bushels of corn and 1½ tons of hay after treating with lime and phosphate and manure and the second time round in rotation. It will now make about 900 pounds of tobacco by picking the land and should make 1,050 pounds per acre on the second time round the rotation. The cropping plan further shows how this field will be used.

At this point three typewritten pages of the plan are omitted for the sake of brevity. They discuss the cropping system for each field in much the same manner as it is discussed above for field A.

FERTILIZER, SEED, CULTIVATION, AND GENERAL FARM PRACTICES

I will use only good seed of varieties adapted to my climate and region. I am going to try some hybrid seed corn recommended by the College of Agriculture, along with the variety I have formerly used and plan to use hybrid variety seed corn, altogether, if such proves to be profitable on my farm. The fertilizer used and the amounts to be applied per acre, for the various crops I am going to grow, will follow the recommendations of the Farm Security Administration supervisor and the local county agent. The same amounts will not likely be used yearly, but will conform to the needs of the particular crop and field as the need might be. I plan to tend and manage my crops in a good farmer-like manner, consulting the Farm Security Administration supervisor and county agent for information about improved practices which I want to follow as far as they are practical on my farm.

There are several of my fields which are now sprinkled with rock which I am going to pick up as soon as possible, in order to make cultivation easier. Fences will be kept in good repair and fence rows kept clean. I will shred my corn stover so that it can be used for bedding in order to get the most from the manure which will be carefully handled and kept covered until spread on the field. I will use liberal applications of manure on my garden, tobacco land, and land which will be put into corn, for I believe the most benefit can be derived from applying manure these places in my rotation.

I am going to prepare my tobacco bed in an open location which will be exposed to the sun, in order to escape as much as possible, diseases. Since the supply of wood on the farm is very limited, it is my intention to use the recently discovered chemical, in the preparation of my seed bed, if these prove practicable and economical. Since tobacco is our primary source of income, the utmost care will be given to this crop from the time a seedbed is prepared until the crop is sold. I have been very successful in the past, having raised 20 crops of tobacco and only 1 ever averaging less than 20 cents per pound, and I feel that the farm on which this plan is being developed is potentially as capable as the land on which I have been farming and I plan to take even more pains with the raising of my tobacco crop in the future than I have in the past.

I now have, or will have, by the time I move on the farm, all the livestock I plan to keep and I will raise as far as is practical, such replacements as will be necessary to maintain an economical balance between the livestock kept and the feed produced on the farm, taking into consideration prices, seasons, and market variations.

Workstock.—I now have three head of work stock, these being two mules and one mare. This number should be sufficient to take care of the work presented in carrying out the proper good farmer-like management of the farm as a whole with the exception of the year 1941.

Since the fields cropped in 1941 will necessitate considerable clearing of bushes, I expect to take care of additional work stock needs that year, by renting one mule for the total cost of $35 for the entire year. . . .

By breeding my mare each year to a jack, this will enable me to have a mule colt for sale, each year. My work stock are not old enough to be in need of replacements for about 5 years or more, at which time the mules will probably be traded for another team.

Cattle.—I will have on hand, at the time I move on the farm in 1941, 10 cows, and I expect to keep this number, making any replacements from stock which I will raise. Such heifers kept for replacements will be saved from my better cows and sired by a purebred bull. All my calves with the exception of one, will be disposed of for veal, the one kept will be traded for one of beef breeding to be butchered for family use. I will feed a good ration in order to obtain the greatest production from my cows at all times. Although I will sell cream, I will first be certain that any and all milk and butter needs for the family are met.

I believe that by careful selection and breeding, I will steadily increase the production of my cows above the approximate 200-pound butterfat average that I now have. As a precautionary measure, I expect to have my cows tested frequently for T. B. and Bangs disease.

The paragraphs on hogs, sheep, and poultry are omitted at this point for the sake of brevity.

SUMMARY

When this plan is fully developed, we will have for sale each year, approximately, the following itemized livestock, crops and products, varying to some extent yearly, due to the irregular acreages grown and their respective yields.[1]

4,000 pounds of tobacco should average	16 cents per pound	$640.00
1 mule colt which should average		50.00
8 veal calves which should average	$15 each	120.00
15 lambs (85 pounds each) should average	7½ cents per pound	102.00
15 hogs weighing 200 pounds each	5 cents per pound	150.00
100 hens for eggs (less home use)	16 cents per dozen	126.00
35 hens (culls) averaging 5 pounds	10 cents per pound	17.50
150 fryers, averaging 2 pounds	15 cents per pound	45.00
10 cows averaging 250 pounds butterfat (less home use).	23 cents per pound	414.00
16 sheep (6 pounds of wool per sheep)	25 cents per pound	24.00
		1,723.00

[1] Long-time average prices are used in developing long-range Farm and Home Plans. Conservatism of the estimated yields is also indicated by comparison with actual yields reported under "Huff's Records Reflect Returns From Good Farming Practices."

We will have feed and food crops and other crops as follows:

4 acres of tobacco which should average 1,000 pounds per acre	4,000 pounds.
14.5 acres of corn which should average 45 pounds per acre	652 bushels.
15 acres of hay which should average 1½ tons per acre	20 tons.
18.5 acres of barley to be pastured, not cut.	
5.5 acres of alfalfa, which should average 2 tons per acre	11 tons.

I. HEALTH

If a medical program comes into our county, we will participate in it each year. This plan will provide for our regular medical needs.

In order to have better health for our family we will carry out a complete "live-at-home" program and use every precaution in regard to sanitation in and around our home.

II. GARDEN AND ORCHARD

In order to carry out a complete "live-at-home" program, we need to have a better garden. We want to put out a good garden to provide fresh vegetables to eat and plenty to can and store, so that we will not have to buy very much. We plan to do the following in improving our garden:

1. This year 1940, we plan to put out a much better garden than we have in the past and pay as much attention to it as we will our crops as we realize the importance of a garden.
2. In 1941, we plan to change the garden spot, making a larger garden (1½ acres), to meet the needs of our family.
3. To put up a new wire garden fence so that it will be chicken proof.
4. We will prepare the ground as early as possible, plowing, disking, and dragging in order to have a good seed bed.
5. We will follow the garden chart, planting a variety of vegetables, according to the amounts and the dates recommended.
6. We have a liquid spray and will buy material to control the insects as soon as they start in the garden. We will get suggestions and remedies from the county and home supervisor in trying to control bugs and insects.
7. In the fall of 1941, we plan to sow the garden to rye and crimson clover to be turned under the next spring, and then we will use a sufficient amount of stable manure so that we can get better production from the garden.
8. We plan to cultivate our garden as regularly and as thoroughly as we do our crops.
9. This fall (1940), we plan to begin our orchard. We will set six apple trees, six peach trees, two pear trees, and two cherry trees. We will also start four grape cuttings.
10. In 1941, we will set some more fruit trees and grape cuttings.

III. CANNING AND STORING

We plan to can and store food to run our family through the winter months. To do this, we plan:

1. To buy 4 dozen ½-gallon jars, to add to the supplies already on hand, and to bring our canning supplies up to standard needs for our family.
2. To buy a pressure cooker, which will improve our canning methods.
3. To build a storage cellar under the kitchen, which will make it very convenient for storing our food. By building canning racks we will have a place to store our fruit jars and have a much neater and cleaner cellar.

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IV. HOUSING, STORAGE, HOUSEHOLD FURNISHINGS, AND SUPPLIES

Since our home is in fairly good condition, to make it the "convenient" home that we have always wanted, we plan to carry out the following plans:

1. To put a new roof on the house.
2. To have the back room, which is a kitchen, replaced by a new one, thus providing for storage space in the kitchen, a kitchen sink, and sufficient windows to make our kitchen a convenient workshop.
3. On to the kitchen we plan to build a screened-in back porch.
4. We plan to build three storage closets. One in our bedroom, one in the hall downstairs, and one in the hall upstairs, thus providing sufficient storage space for our family needs.
5. To add a door to a bedroom upstairs and a door to the attic.
6. To paper the ceiling in the downstairs bedroom and to add another coat of paint on the floor of an upstairs bedroom.
7. We plan to install electricity in our home as the REA line is approximately 1,500 yards away. Our gas washing machine will be exchanged for an electric machine. We have our electric iron.
8. We will put new shades on all windows and will make new curtains for the rooms downstairs.
9. We will buy a new heater stove as our stove will not do for another year. We also plan to buy linoleum for our bedroom.
10. We also plan to varnish some of the household furnishings, as it will be needed and will look much better in our new home.

Clothing

We plan to be as economical as possible in choosing our clothing. Our sewing machine is in good condition and some clothing will be made at home. We do want our family to be suitably clothed and clean.

V. SANITATION

1. As the windows and doors have removable screens, we plan to make minor repairs on them.
2. We plan to build a new sanitary toilet.
3. Our cistern is in good condition and we plan to have our water piped into our home.

VI. YARD AND SURROUNDINGS

We want to make the approach to our home and the yard and surroundings, as attractive as possible. To do so, we plan:

1. With the trees in the year, to set two more shade trees.
2. To plant shrubs around the front porch and sides of the house.
3. To make a walk in the front and back yard from bricks that may be left over from a flue that is to be removed.

VII. EDUCATION

Our home will be aproximately 1 mile from the nearest grade school. The community in which we live, is in a consolidated school area. Our educational plans for the children are the following:

1. We will send them to the graded school until they have completed the eighth grade there.
2. Being in the consolidated school area, we then want them to attend the Memorial Consolidated School and finish high-school work.
3. We want them to participate in 4–H Club work and will encourage them to do so.
4. As Raymond has completed the eighth grade, through the crippled children's commission, we would like for him to take up a trade, thus enabling him to make his own living. He has and does help to raise some chickens which give him a little income.

The Huff's annual farm and home plan.—Each year the Huffs with the help of the county supervisor of the Farmers Home Administration have developed a farm and home plan. These annual plans have been consistent with the long-time plan originally adopted. In fact, they have outlined the steps which have carried the Huffs steadily forward toward the achievement of their long-time goals. The annual plans cover details with respect to specific undertakings and with respect to the management of financial affairs which it is impractical to incorporate in a long-time plan. It will be noted also that annual plans include an operating budget by which the soundness of the year's business may be tested.

A copy of the Huff's crop and livestock program for 1941 is shown in figures 23 and 24. They occupied their new farm on January 1 of that year. Table E shows the number of acres which were to be devoted to various crops and the yields and total production anticipated from each field. Tobacco grown on 3.4 acres was the only crop to be sold. It was estimated that 3,400 pounds would be produced and that at 16 cents per pound it would bring in $544.

Table F of figure 24 shows the number of various classes of livestock on hand at the beginning of the year, the number to be produced, and the number available for sale after allowances for death loss, home consumption, and carry-over. It is estimated in table G (fig. 24) that $464 worth of butterfat, eggs, and wool would be available for sale. Table H (fig. 24) shows the number of various classes of animals to be fed, the quantities of food required, and what quantities were to be home grown and what quantities were to be purchased.

It is apparent that many of the items entering into the Huff's crop and livestock program for 1941 are subject to variations from year to year. The number of animals maintained, quantities of feed carried over, work stock or breeding stock to be replaced are among the variables. It is for reasons such as these that the Huffs needed annual plans as well as a long-time plan.

The Huff's financial plans for the year 1941 are shown in figure 24. As shown in table K (fig. 24) it was estimated that $603 would be expended for operating the farm and that $450 would be required to meet the living expenses of the family. The Huffs expected to be able to meet these farm operating and family living expenses without borrowing funds from any source. In fact, they started the year 1941 with an operating capital fund of $561 and table O (fig. 24) indicates that they planned to maintain this fund for use in starting off the year 1942.

Part III.—CROP AND LIVESTOCK PROGRAM - 1941

Table E—ESTIMATED PRODUCTION AND DISPOSAL OF CROPS

Name of Crop	Acres	To Be Used		Production			Amount on Hand	Total Supply	Farm and Home Use			For Sale		
		Seed	Fertilizer	Per acre	Total	Operator's share			Feed	Food	Carry-over and seed	Quantity	Price	Value
TOBACCO	3.4		27	1000		3400						3400	.16	$ 544
CORN	20.6	8	45	30		618								
HAY	13.8			1¼		17.3T								
ALFALFA	5.5			2		11T								
BARLEY & GR.	14			.5		7.	PASTURED NOT CUT FOR GRAIN							
ROT. PASTURE	18.5			.3		5.5								
P. PASTURE	9.2			.3		2.7								
BARLEY	(24)	80	65											
PASTURE	5.5			3		1.7								
Garden	1.5	10	3	xxx	xxxx		xxx		xxx			xxx	xxx	
Fallow, idle		xxx	xxx	xxx	xxxx	xxxx	xxx		xxx	xxx	xxxx	xxx	xxx	xxxx
Pasture	8.7			xxx	xxxx	xxxx	xxx		xxx	xxx	xxxx			
Total	100.7	xxx	xxx	xxx	xxxx	xxxx	xxx		xxx	xxx	xxxx	xxx	xxx	$ 544

Table F—ESTIMATED PRODUCTION AND DISPOSAL OF LIVESTOCK

Kind of Livestock	Number on Hand	To Be Purchased	To Be Produced	Total	Operator's Share	Death Loss	Home Use	Carry-over	For Sale		
									Number	Price per unit	Value
WORKSTOCK	4		1		5			4	1	50	$ 50
COWS	10		10		20	1		11*	8	12½	100
STEER & BULL	1		1		2		1	1			
SHEEP	16		20		36	5		16	15	6	90
HOGS	11		24		35	4	5	7	19		145
POULTRY	100		300		400	50	60	100	190		60
Total	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxxx	xxx	xxx	$ 445

*ONE CALF SAVED, TO BE TRADED FOR CALF OF BEEF TYPE, FOR BUTCHERING IN 1942

Table G—ESTIMATED PRODUCTION AND DISPOSAL OF LIVESTOCK PRODUCTS

Kind of Product	Number Producing Animals	Production per Animal	Total Production	Operator's Share	Farm Use	Home Use	For Sale		
							Quantity	Price per unit	Value
Butterfat	10	200		2000	260	340	1400	23	$ 322
Whole milk									
Eggs	100	10		1000		208	792	15	118
Wool	16	6		96			96	25	24
Total	xxxxx	xxxxx	xxxxxxx	xxxxx	xxxx	xxxx	xxxxx	xxxx	$ 464

Table H—FEED TO BE CONSUMED FOR (12) MONTHS, ENDING 3-1-42

Kind of Livestock	Number of Head	Feeding Period	Name of Feed—Grain (bu.)			Concentrates (lb.)		Roughage (tons)		Units Pasture	
			Corn	Hay	Stover	CSM	SM	Mash		Acres	Period
WORKSTOCK	3		90	3	2					3	
COWS	10		120	15	5	1000				10	
HEIFERS	2		10	1						.5	
BULL & STEER	2		10	2	3	100				1	
SHEEP	16		8	2	1½	200				2.5	
HOGS	31		250				11000				
POULTRY	100		80				4000	800			
Total feed needs			568	23	11½	1300	15000	800		18	
Amount on hand			250	7T	3T					16.9	
Furnished by farm			618	28.3T	35T						
To be purchased						1300		800			
Price per unit		$	$	$	$	$ 2	$	$ 1.50	$	$	$
Value of feed purchased		$	$	$	$	$ 26	$	$ 12.	$	$	$

*Indicate: T=Temporary; P=Permanent.

Cost of feed to be purchased by landlord, $..... **Cost of feed to be purchased by operator. $**..38.....

8—10965

FIGURE 23

As shown on table N (fig. 24) the only capital outlay anticipated was $50 for a share in the purchase of a purebred bull to be used with neighbors under a group services arrangement. Tables N and O are summary tables. An income of $1,548 from all sources was anticipated and the estimated expenditures totaled $1,103. On this basis a balance of $445 was indicated which would be available for payment on the farm-ownership debt.

Part V.—FINANCIAL PLANS FOR COMING YEAR 1941

Table K—OUR ESTIMATED EXPENSES FOR OPERATING THE FARM COMING YEAR IS AS FOLLOWS

Item	Total Expense	We Can Pay	We Need to Borrow
Feed	$ 38	$	$
Seed: Crop, garden	98		
Fertilizer, lime			
Threshing, ginning	22		
Misc. crop expense	16		
Machinery repair	26		
Auto, tractor, truck	100		
Building and fence repair	30		
Misc. livestock expense	23		
Hired labor	30		
Property insurance	42		
Current taxes	38		
Cash rent			
Current interest		[illegible]	[illegible]
Irrigation and drainage		[illegible]	[illegible]
Com. and coop. service fee		[illegible]	[illegible]
Recording fees		[illegible]	[illegible]
Other			
PHOSPHATE (8740#)	96		
LIME (34.9T)	44		
Total for Farm	$ 603	$ 603	$ 0

Table L—FAMILY OPERATING EXPENSES

Food purchased	$ 143	$	$
Clothing	110		
Personal	10		
Medical care	25		
Household operation	48	[illegible]	[illegible]
Housing—minor imp	—	[illegible]	[illegible]
Minor furnishings	27	[illegible]	[illegible]
School, church, recreation	37		
Reserve for emergency	50		
Life insurance			
Total for Family	$ 450	$ 450	$ 0

Cash value living from farm $

Table M—CAPITAL GOODS WE EXPECT TO BUY

Item	Total Expense	We Can Pay	We Need to Borrow
Farm:			
New buildings	$	$	$
New machinery			
1 PUREBRED BULL	50	50	
Livestock			
Group services			
Household goods:			
Maj. equip. and furn			
Major house imp			
Old debts: (J)			
Other			
Total Capital	$ 50	$ 50	$

We need to borrow (total of Tables K, L, M) $

Table N—FINANCIAL SUMMARY

Items	Table	This Year	% Typical
Receipts:			
Crop sales	E	$ 544	$ 640
Livestock sales	F	445	484
Livestock products	G	464	564
A. A. A. payments		95	95
Other farm income			
Total Receipts		$ 1548	$ 1783
Expenses:			
Farm operating expense	K	603	600
Family operating expense	L	450	400
BULL	M	50	
Total Expenses		$ 1103	$ 1000
Net cash income		$ 445	$ 783

TABLE O—LOAN ANALYSIS

OPER. CAP. BEGINNING OF YR.	561
Total cash receipts (Table N)	$ 1548
Expenses paid by us (Tables K, L, and M)	1103
Balance available for payment	445
Payment on FSA loan	445
Balance OPR. CAP. END OF YR.	$ 561

Table P—REPAYMENT SCHEDULE

Item	Interest Rate	Amount Owed	Repayments 1st year	2d year	3d year	4th year	5th year
FSA loan this year: Operating (L)		$	$	$	$	$	$
Capital (M)							
Previous FSA loans							
R. R. Corporation loan							
Other debts we can pay (M)							
Other							
Total	x x x	$	$	$	$	$	$

The provisions of this farm and home plan herein represented are satisfactory and acceptable and will be followed insofar as possible to do so.

Applicant ..... Homemaker ..... Date .....

Approval Recommended: RR Sup. ..... Date .....

Home Sup. ..... Date .....

Approved: Dist. Sup. or Loan App. Off. ..... Date .....

U. S. GOVERNMENT PRINTING OFFICE 8—10965

FIGURE 24

Such a payment would result in creating a small margin above the $334.83 required annually to amortize the $7,740 debt in the 40 years, as allowed in the repayment contract. In other words, if the income were as great as anticipated and the expenses were kept within the estimates, it would be possible for the Huffs to get ahead of schedule the very first year. As a matter of fact, they did even better than they anticipated. Their cash farm income

exceeded $1,548. They made a $684 payment on their farm and this put them $334 ahead of schedule.

Keeping Records

The Huffs have kept FHA record books.—The Huffs kept accounts in FHA family record books while they were active farm-ownership borrowers. In fact, they continued the record keeping practice after fully discharging their debt obligations to the Federal Government. Thus, they have evidenced their faith in the value of record keeping. They have demonstrated that they consider it advantageous to know where the money comes from and where it goes, when capital expenditures can safely be made and when they cannot, and what their gain or loss in net worth has been when a year draws to a close.[2]

The Huff's record books furnished such facts as those mentioned above. On the basis of facts sound decisions were made from year to year. The Huff's made substantial investments in machinery and equipment for the farm and the home while they were borrowers, but they did it gradually and without getting their annual budgets out of balance. That is the essence of good management in any kind of business and the records prove that the Huffs were no exception to the rule. With them record keeping and planning have been interrelated activities. They have exemplified the principle that plans which are not based upon records are likely to be unreliable, while records which do not contribute to better planning have been kept pretty much in vain.

The Huffs' Records Reflect Financial Progress

Some of the significant evidences of the Huffs' financial progress obtained from an analysis of their records will be found in table 17. They paid for their $7,740 farm from what they made on it in 6 years. During that time, their annual cash farm income ranged from $2,330 to $5,270. The county FHA supervisor who knew what Hart County farms sold for in the spring of 1949 thought the Huff farm would sell readily at that time for $20,000, but they had no desire to sell it.

TABLE 17.—*Huff's record reflects financial progress*

Item	1941	1942	1943	1944	1945
Cash farm income	$2, 330	$5, 267	$5, 029	$4, 466	$5, 270
Value of products used in home	686	643	798	810	850
Family living expenses	314	478	710	520	745
Farm operating expenses	936	795	1, 296	1, 001	2, 157
Net cash farm income	[1] 684	[1] 1, 995	[1] 3, 026	2, 945	2, 369
Gain in net worth	1, 191	1, 855	2, 437	1, 668	2, 539
Cumulative net worth	4, 565	6, 420	8, 857	10, 525	13, 064
Annual payments on farm [2]	684	1, 150	2, 000	2, 000	2, 000
Amount ahead of schedule	334	349	1, 236	2, 757	4, 422

[1] Computed net cash income for tenant-purchase payment.
[2] Paid in full in June 1946.

[2] The Huffs practice in this respect is not exceptional. Many paid-up farm-ownership borrowers continue to keep FHA record books.

The records reveal that the Huffs spent money in order to make money. Their big expenditures were for lime, phosphates, and cover crops to build up the producing capacity of the soil. Mr. Huff's own words were: "I am not afraid of debt if it is to buy something that will pay." When his neighbor inquired, "how are you going to pay for your farm when you are spending so much money for lime, fertilizer, and phosphate?" Mr. Huff replied "that is exactly the way I aim to pay for it." The fact that Mr. Huff's farm operating expenses stepped up from $936 in 1941 to $2,157 in 1945 would be cause for alarm if the net cash farm income and gain in net worth had not made corresponding increases.

When I visited Corby Huff's farm March 8, 1949, he was breaking ground with a new $2,200 tractor. This price included two attachments, a disk plow and a disk harrow. Stored away in the tobacco barn and well protected from the weather were the following tools: Tractor disk, six-shovel riding cultivator, tobacco setter, sulky hay rake, two-row corn planter with fertilizer attachment, cultipacker, 14-tooth garden harrow, three-shovel tobacco plow, three double-shovel plows, one lay-off plow or colter, two turning plows, mowing machine, a one-row corn planter, lime spreader, manure spreader, wagon bed and frame, tobacco plant bed burner, fence stretcher, tobacco sprayer, and a common harrow.

Mr. Huff recalled that when he was a share cropper his landlord supplied him with two mules, one double-shovel plow and one turning plow. He added. "If you have nothing to do with, you just can't do."

Huff's Records Reflect Returns From Good Farming Practices

Another reward for the good farming practices to which the Huffs committed themselves in their original long-range farm and home plan and followed consistently thereafter has been the conversion of a nonproductive farm into a highly productive one. Gullies have been filled in and healed over. Tons of loose stone have been picked up and piled where they no longer interfere with field work. Tobacco yields on the Huff farm during the 3 years before he bought it averaged 760 pounds per acre. His first yield was 1,187 pounds per acre. In 1948 he obtained a yield of 2,000 pounds per acre. He got 27 bushels of corn per acre in 1941, after applying 2 tons of lime and 500 pounds of 20-percent phosphate per acre plus 300 pounds of a 3–9–6 fertilizer applied in the row at planting time. He got 72 bushels of corn per acre in 1947 as measured by the Corn Derby Committee. Before this crop he applied 1 ton of lime, 300 pounds of 20-percent phosphate, 8 tons of barnyard manure, and 250 pounds of 3–9–6 fertilizer in the row.

Mr. Huff now has 72 acres of improved pasture. He had none at the start. His pastures now carry one animal unit for each two acres and this without overgrazing. His pasture mixture consists of 10 pounds of orchard grass, 10 pounds of fescue, 3 pounds of Blue grass, 1 pound of Ladino clover, 6–8 pounds of alfalfa, and 6 pounds of red clover.

The average yield of butterfat per cow in 1941 was 176 pounds. In 1947 the average yield per cow was 312 pounds. The dairy herd has been increased from 8 to 12 head. The farm is now carrying 15 cows and 9 replacement heifers. He has a registered Brown Swiss bull and two

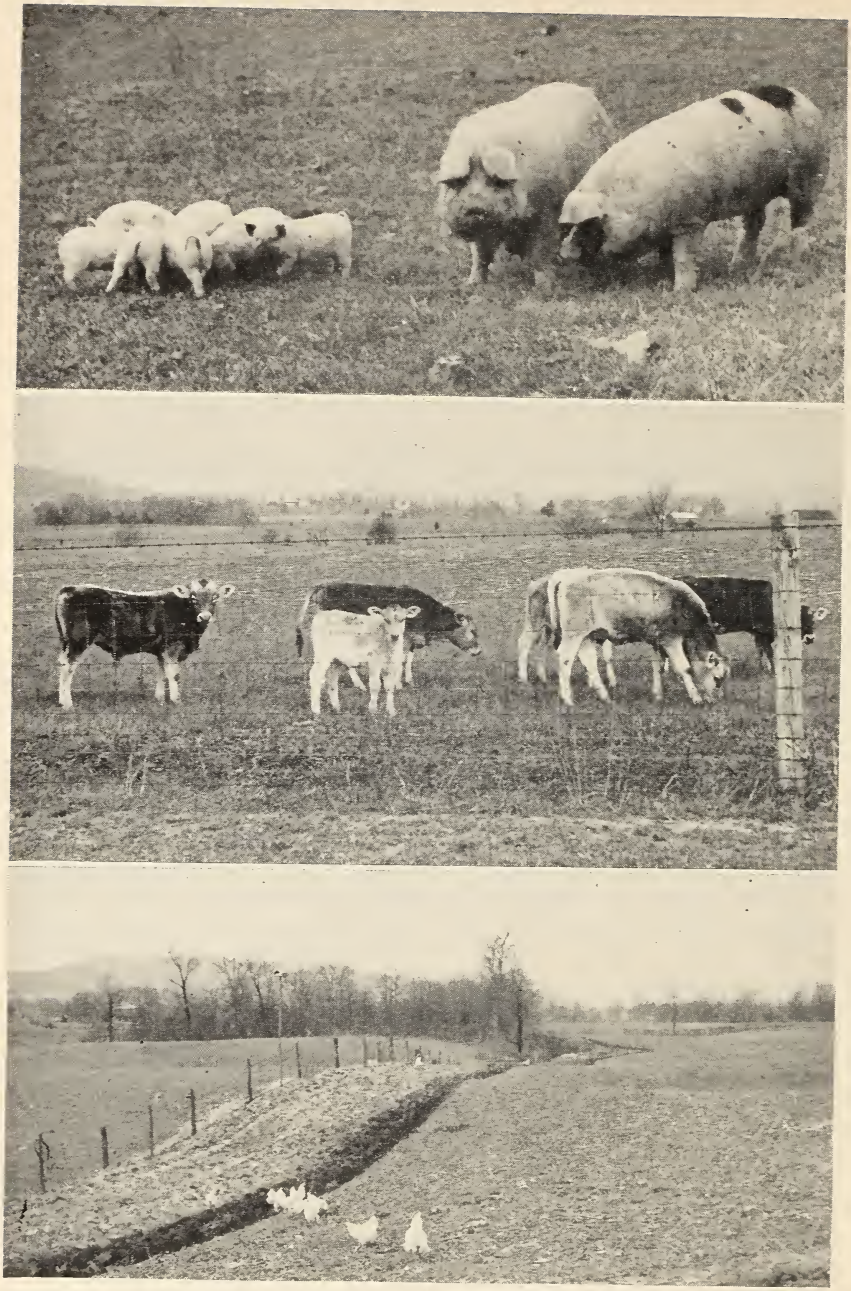

FIGURE 25.—Cows, pigs, and chickens have been added as major sources of income on the Huff farm. Seventy-two acres are now in improved pastures.

FIGURE 26.—Above: Corby Huff and son firing tobacco bed—a common safeguard against disease infection. Below: Panoramic view of Huff farm in Hart County, Ky., taken in March 1949. When the farm was purchased in 1940, the clean, well-tilled fields shown here were eroded, infested with sassafras brush and produced meager crops of corn and tobacco. Corn now yields better than 70 bushels and tobacco more than 2,000 pounds to the acre.

registered heifers. Ultimately, he plans to have a registered Brown Swiss herd. They have a good thrifty flock of white Plymouth Rock chickens and keep a brood sow from which they obtain two litters per year.

On the whole the long-range farm and home plan adopted in 1941 proved to be a satisfactory guide for progress and development through 1948. There have been deviations from it, but that was to be expected. It was found expedient to abandon the sheep enterprise and concentrate to a greater extent on dairy cows. The tobacco allotment has been increased. The long-range plan contemplated the use of horsepower but in keeping with changing conditions not wholly foreseeable when the planning was done, a tractor was purchased in 1949 to provide the major source of power.

Huff's Record Reflects Better Living

Table 9 shows that the Huff's expended $314 for family living in 1941 and $745 in 1945. The value of products used in the home increased from $686 to $850 within the same period of time. The following is a list of the improvements related to better living installed since the Huffs purchased their farm:

Drilled well providing ample pure water for home and farm use.
Fully equipped bathroom with toilet, tub, and lavatory.
Sink and cabinets in the kitchen.
Electric water system, including electric water heater.
Electric refrigerator.
Electric cooking stove.
Living room and bedroom suites.
Built-in new front porch and screening over windows and doors.
Electric lights.
Concrete walks.
Concrete cellar under house (16 by 16 by 8 feet).
The house has been painted twice.

James R. Kabler was associate county supervisor in Hart County when the Huff loan was made and he worked with Mr. and Mrs. Huff in preparing their original long-range plan. The Huffs have welcomed and still welcome information about cropping systems, rotations, varieties, fertilizer applications, pest control, livestock management, and the like. They have attended and benefited by annual meetings of Hart County farm-ownership borrowers at which records of accomplishment have been compared and ideas have been exchanged. They have worked hard and managed well. "Teaming up for mutual helpfulness" appears to describe better than "supervision" the relationship that has developed between the Huffs and the local representatives of the Farmers Home Administration.[3]

Mr. Kabler who became county supervisor in Hart County upon returning after 3 years in the armed services says: "The Huffs have increased

[3] Earl Mayhew, State FHA director, estimates that there are something like 6 million acres of land in Kentucky now producing meager crops which can, by the sort of treatment which the Huff farm has received, be brought to a similar high state of productivity. He is convinced that at least 3 million out of the 6 million acres will remain unimproved unless occupants of the land have the benefit of the kind of financial and supervisory assistance which the Huff family has received.

their initiative and raised their social standing. Before acceptance, the family belonged to no organizations and rarely attended church. Now, Mr. Huff is a member of the following: Masonic Lodge, Brown Swiss Cattle Association, Corn Derby Committee, Artificial Breeding Dairy Cattle Association, and Farm Bureau. They are now church members, attend frequently, and contribute generously. The younger children are in school and taking active interest in school affairs. While they were tenants their children did not attend school regularly."

The Huff's oldest son suffered a spinal injury at the age of 9 months which resulted in a paralysis of his lower limbs. He has never recovered. The parents are proud of the fact that as a result of the training which they made available, he has obtained useful employment in a children's hospital where he makes braces for crippled children. One of the Huff boys operates a farm adjoining that of his parents. Three sons and a 12-year-old daughter are still at home where there is ample opportunity for them to devote their spare time profitably. "If I had continued share cropping I could not have kept any of my boys at home," Mr. Huff told me. And the son who had left the wheel of the new tractor to listen in on the conversation remarked: "When I leave home it will be a case of have to."

Analyzing Records

Records of A. F. Abercrombie reveal need for reorganizing his system of farming.—On October 10, 1938, A. F. Abercrombie, then 42 years of age, filed an application with the Farm Security Administration for a loan of $5,340 with which to purchase the 200 acre farm in Barbour County, Ala., which they had operated for 4 years as crop renters. Mr. and Mrs. Abercrombie then had a daughter 13, and two sons aged 9 and 6, respectively. Previously, the Abercrombies had been one-mule farmers in Pike County, which joins Barbour County on the west. In those days, they were very poor in terms of worldly goods as are practically all one-mule farmers in Alabama and elsewhere.

When the Abercrombies filed their application for a farm-ownership loan they had accumulated 3 head of work stock, 6 dairy cows, 1 beef cow, 11 hogs, and 59 chickens. Their net assets as revealed by their financial statement were $1,265. This included $340 worth of household goods, $165 worth of machinery and equipment, $550 worth of stock of all kinds and $290 worth of feed. They had an outstanding debt of $80. This, in brief, was the financial condition of the Abercrombie family after some 20 years of hard work on rented farms during which they had experienced the handicaps of inadequate equipment, inadequate operating capital, and inadequate control over the nonproductive land which they farmed. Because of their thrift, industry, and good reputation, their application for a farm-ownership loan was approved and on the 9th of January 1939 they became owners of 200 acres of sandy, rolling land very badly in need of improvement and good management.

A copy of the summary page of the Abercrombies' annual income return [4] for the year ending December 31, 1948, is reproduced as figure 27. It will

[4] Form FHA–528, a four-page form filed annually by all active farm-ownership borrowers. Use of form described on p. 232.

be noted that they were $749.85 ahead of schedule on their payments on their farm on March 31, 1948. An additional $500 was paid on the debt prior to December 31, 1948, and this put their payments $1,019 ahead of schedule. Their chattel inventory had increased to $8,255 and their net

FORM FHA-528
REV. 5-21-48

UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

BUREAU OF BUDGET NO. 40-R1066.4.
EXPIRES 12-31-49.

LOAN: ☒ DIRECT ☐ INSURED
TYPE: ☒ TP ☐ FE ☐ FD ☐ PL
PAYMENT PLAN: ☐ I ☐ II

ANNUAL INCOME RETURN

FOR YEAR ENDING DECEMBER 31, 19 48

NUMBER IN FAMILY ON FARM	ACRES IN FARM	CROP ACRES
4	o 200 R	o 100 R

NAME A. F. ABERCROMBIE
STATE ALABAMA
COUNTY BARBOUR
CASE NO. I-3-25778 (W.K.95)

A. FINANCIAL INFORMATION

1. DATE OF INITIAL NOTE 1/9 19 39 DATE FIRST PAYMENT DUE ON NOTE 12/31 19 39 TOTAL LOANS $ 5340

2. INSTALLMENT ON NOTE AND OTHER CHARGES FOR YEAR—(SEE FORM FHA-473B)
(a) INSTALLMENT DUE ON NOTE $ 231
(b) MORTGAGE INSURANCE CHARGE $ —
(c) RECOVERABLE COST CHARGES $
(d) INTEREST ON ADVANCE FROM MTG. INS. FUND $ — TOTAL $ 231

3. SCHEDULE STATUS ON LAST MARCH 31 NOT INCLUDING AMOUNT PREPAID (SEE FORM FHA-473B) AHEAD OR BEHIND $ 749.85

4. ACCUMULATED EXTRA PAYMENTS AND REFUNDS PAID THROUGH LAST MARCH 31 $

5. VALUE OF PRODUCTS FURNISHED BY FARM FOR HOME USE (SEE RECORD BOOK) $ 754.00

	BEGINNING OF YEAR	END OF YEAR	INCREASE OR DECREASE
6. DEBTS OTHER THAN FARM OWNERSHIP (TABLE K, ITEMS 20, 21, AND 22)	$ 200	$ 0	$ 200.00
7. CHATTEL INVENTORY (SEE FINANCIAL STATEMENT IN RECORD BOOK) (a) FEED, ETC.	$ 2605	$ 725	
(b) PRODUCTIVE LIVESTOCK	$ 1975	$ 3730	
(c) WORK STOCK AND FARM EQUIPMENT	$ 1850	$ 3800	
TOTAL	$ 6430	$ 8255	$ 1825.00
8. NET WORTH (SEE RECORD BOOK)	$ 10330	$ 14522	$ 4192.00

B. SUMMARY OF CASH INCOME AND EXPENSES

1. GROSS CASH INCOME (TABLE F, ITEM 3) $ 11945.00

2. EXPENSES: (a) FAMILY LIVING (TABLE G, ITEM 11) $ 2086.00
(b) FARM OPERATING (TABLE H, ITEM 11) $ 5083.00 TOTAL $ 7169.00

3. NET CASH INCOME (ITEM 1 MINUS ITEM 2) $ 4776.00

4. ADJUSTED CASH CARRY-OVER BEGINNING OF YEAR (LAST LINE, PAGE 1, FARM AND HOME PLAN FOR PAST CROP YEAR) $ 800.00

5. ADJUSTED CASH CARRY-OVER END OF YEAR (LAST LINE, PAGE 1, FARM AND HOME PLAN FOR NEW CROP YEAR) $ 1000.00

*THIS AMOUNT WILL BE THE SUM OF ITEMS B-4 AND C-5.

C. USE OF NET CASH INCOME (SHOWN IN TABLE B, ITEM 3)

1. NET DEBT REPAYMENT FROM YEAR'S INCOME (TABLE L, ITEM 3) $ 200.00

2. CAPITAL EXPENDITURES FROM YEAR'S INCOME (TABLE J, ITEM 9, COLUMN 4) $ 3824.00

3. AMOUNT OF ERROR (INDICATE PLUS OR MINUS)** $ 52.00

4. FARM OWNERSHIP PAYMENT $ 500.00

5. AMOUNT HELD BACK FROM YEAR'S INCOME TO BUILD UP ADDITIONAL CASH CAPITAL (IF CASH CARRY-OVER IS DECREASED, INDICATE BY MINUS) $ 200.00

6. AMOUNT HELD BACK FROM YEAR'S INCOME TO PAY ADDITIONAL DEBTS $ —

7. TOTAL (ADD ITEMS 1-6. TOTAL SHOULD CORRESPOND WITH ITEM B-3) $ 4776.00

**METHOD OF DETERMINING ITEM C-3. AMOUNT OF ERROR. (1) ADD ITEMS B-4 AND B-3. (2) ADD THE FOLLOWING ITEMS: C-1, C-2, REGULAR FARM OWNERSHIP PAYMENT MADE THROUGH DECEMBER 31, CASH ON HAND DECEMBER 31, AND ITEM E-4. SUBTRACT (2) FROM (1) FOR AMOUNT OF ERROR. IF (2) IS GREATER THAN (1) INDICATE BY MINUS.

SUPERVISOR'S DETERMINATION:

1. ON THE BASIS OF THIS REPORT, THE YEAR'S INCOME IS DETERMINED TO BE ☐ NORMAL OR ABOVE NORMAL ☐ BELOW NORMAL

2. THE MINIMUM REQUIRED PAYMENT IS—(A) TO COVER DELINQUENCY AS OF LAST MARCH 31 (SEE FORM FHA-473B) $
(B) FOR THE YEAR $ 500.00 TOTAL $ 500.00

DATE 1/12/49 COUNTY SUPERVISOR JAMES E. LEE

BORROWER'S AGREEMENT:

1. OUT OF THE YEAR'S INCOME, I AGREE TO PAY—(A) TO COVER DELINQUENCY AS OF LAST MARCH 31 $
(B) FOR THE YEAR $ 500.00 TOTAL $ 500.00

2. I HAD MADE, AS OF DECEMBER 31, PAYMENTS OF $ 500.00

3. LEAVING A BALANCE TO BE PAID OF (ITEM 1 MINUS ITEM 2) $ 0

4. THESE AMOUNTS ARE IN addition TO THE FOLLOWING EXTRA PAYMENTS AND REFUNDS MADE DURING THE YEAR (SEE FORM FHA-473B) $

DATE 1/12/49 BORROWER A. F. ABERCROMBIE

16—52813-2

FIGURE 27

worth to $14,522. Their gross income in 1948 was $11,945. Of this, $2,633 came from the sale of hogs, $382 from cattle, $5,396 from peanuts, and $3,534 from pecan nursery stock.

Table B (figure 27) shows that in 1948 the Abercrombies expended $2,086 for family living and $5,083 for farm operating. Seed and fertilizer ac-

counted for $2,933 of this operating outlay. Their expenditures for capital goods in 1948 were $3,824. Nine hundred and thirty-nine dollars were expended for home equipment and furniture; $1,025 for farm machinery and equipment; $150 for land improvements; $710 for building improvements, and $1,000 for an automobile.

Lines 4 and 5 table B (figure 27) show that the Abercrombies started 1948 with $800 operating capital. They increased this to $1,000 for 1949.

Summarizing, in 1948 Abercrombies paid $500 on their farm debt. This was then their only debt. They spent that year $3,824 in improvements and equipment for their farm and home, added $200 to their operating capital and $4,192 to their net worth. This contrasts sharply indeed with their situation 10 years earlier. They had made great progress.

It might be assumed because they were so much better off in 1949 than they had been in 1939 that all had gone well with the Abercrombies meanwhile. But this is not the case. Their annual income returns for the first few years showed lack of progress. They simply were not getting ahead. Clearly there was need for a major adjustment in their farming system. Fortunately, the records revealed the deficiencies and they were corrected before it was too late. James E. Lee, the FHA supervisor for Barbour County, explains what took place as follows:

Mr. Abercrombie tried cotton as his chief source of income the first 2 years on his farm and made complete crop failures. His first year on his farm, he borrowed $721: $175 was to pay an old debt on his mules, $46 to purchase a stalk cutter and planter, and the remainder was for farming operations. He made nearly a complete crop failure and wasn't able to pay anything on his crop loan, but did pay $147.54 on his farm from A. C. P. payments.

In 1940 he received a crop loan of $375. From this he purchased a pressure cooker, stove, 25 dozen fruit jars, and the remainder was used for farming operations. This time he made another short crop and received only $487 from crops and $50 from a mule exchange. He was only able to pay $249.31 on his farm and $50 on his crop loan that year.

In 1941 he borrowed $197 and with what money he had from his crops he and his supervisor decided it was time to quit cotton farming and begin to try more peanuts and a few hogs. So that fall he received $118.50 from cotton, $48 from calves, $140.29 from hogs, and $483.97 from peanuts. By following this system through, he was able to pay his back crop loans off by the end of 1943 and have enough money left to operate on his own.

In 1946 we began to work out a livestock program (hogs and beef cattle) for him and to expand his small pecan nursery so as to make these his main sources of income. We were able to get him started to growing hybrid corn and fertilizing according to Experiment Station recommendation in 1947, and this year he had 41 acres that produced around 40 bushels per acre.

He now has 18 acres of permanent pasture that was started in 1946 and 1947, and plans to increase this until he can carry 50 head of cattle. Sixteen acres of oats and Caley peas are to be grazed now by hogs and cattle. All of his peanut land and all the corn that was grazed early enough by hogs now has a nice crop of lupine on it. He plans to combine about 20 acres of blue lupine for seed next spring.

At present, he is clearing up 40 acres more of good level land that he plans to put in row crops within the next 3 years and take out of cultivation all of his rolling land and put it into pasture.

All of his cultivable land is terraced—the last 24 acres that needed it was completed this year (1949). The farm is well-fenced and has several fields that can be hogged off to save labor. From 50 to 80 acres of winter cover crops are grown each year. The buildings are in the best of shape—being painted and repaired as needed. The lawn is green the year around and is mowed as regularly as any city lawn. The yard has been landscaped and the shrubs are kept in good shape.

This family's outlook on life has changed completely in the last few years. They have a nice bathroom, gas stove, gas hot water heater, the house is gas heated, barn and house both painted, all of the above improvements completed in 1947. This year, they have been able to wire their house, purchase a deep-freeze unit and a refrigerator, refinish the floors, put inlaid linoleum on the kitchen floor, purchase a nice radio, build a concrete front porch and screen it, build a concrete walk, underpin the house, and get an electric pump for the well.

This family is sold on the idea that you have to plant, fertilize, cultivate, and follow experimental recommendations with crops and livestock to make a success. We had a hard time convincing them but once they began to see the results they were eager to take suggestions. All of the neighbors and people who have been able to see their setup have admired it and commented very favorably on how supervision and getting a home of their own can change a family's complete life.

I visited the Abercrombie farm on February 17, 1949, in company with Julian Brown, Alabama FHA director. As we entered the driveway we met a truck headed for town with a shipment of young pecan trees. They were grown in Abercrombie's 2-acre pecan nursery. The income from the nursery in 1948 was $3,534. When the proposal was made that a picture be taken of the nursery, Mr. Abercrombie said, "We must get Royce. He is a member of the firm when it comes to the nursery business." Accordingly, the younger son, Royce, was sent for. He came home from high school in order to be included in the nursery picture. An older brother, Milton, who was away when we visited the farm, is said to be the main expert on budding and grafting the nursery stock.

It developed that Royce Abercrombie, high-school senior, is president of the Barbour County Chapter of the Future Farmers of America. Royce thinks the nursery may pay his way through the State Agricultural College at Auburn, Ala. He said none of the 13 boys in the vocational agricultural class in his high school plan to farm. That fact may be related to Mrs. Abercrombie's answer to my question about farm organizations and cooperative activities in the community. She said, "We have no farm organizations or cooperatives here but we need them. This community is made up of tenants. They live "gypsy" lives. They are here this year and some place else next year." The sons of "gypsy" farmers can hardly be expected to choose farming as a career.

The author saw many evidences of good farming on the Abercrombie farm. Among them were barnyard manure being spread and luxurious, waist high, blue lupine soon to be turned under as a cover crop on a field which will be planted to corn. There was also a family orchard consisting of eight pecan trees, six fig trees, half an acre of peaches, a few pears, pomegranates and scuppernong grapevines. Kudzu was growing where

FIGURE 28.—Starting as one mule share croppers, the Abercrombies worked their way up until they were living in the better than average share-cropper home pictured on the left when they obtained their farm-ownership loan in 1938.

The attractive, well landscaped home pictured on the right, reflects the Abercrombies' prosperity after abandoning straight cotton farming.

A. F. Abercrombie and his son, Royce, grafting seedlings in their 2-acre pecan nursery which is one of the highly profitable enterprises on their diversified farm. Beef cattle and hogs have replaced cotton in the farming system.

terraces empty into draws. There was a beautifully located fish pond around which long leaf pine from the State nursery had just been planted. The Alabama Experiment Station reports that a 1-acre fish pond well stocked and managed may produce as much food as any acre on the farm.

The Abercrombie's premises were neat. Their home was well-furnished, clean, and attractive inside. It was well painted and beautifully land-

scaped outside. "I paid $4.50 apiece for those two Camellias by the corner of the house," said Mr. Abercrombie, "and I think they are worth it." This typifies their philosophy of farming better in order to live better.

Analyzing records of individual borrowers is an important phase of supervision.—The records of all active farm-ownership borrowers are analyzed each year just as the Abercrombie records were analyzed. One of the instructions issued by the Farmers Home Administration provides that: "As soon as possible after the close of the record-book year (usually the calendar year), but not later than February 28, the county supervisor will meet with the borrower for his annual checkout." The "annual checkout" involves examining the borrower's family record book for completeness and accuracy, transferring information from the record book and other sources to a four-page Annual Income Return, analyzing the year's business as it is revealed by this Annual Income Return, completing the borrower's farm and home plans for the new year, and finally, collecting whatever remains to be paid of the amounts determined to be due on the borrower's real-estate debt and other debts. It is apparent, therefore, that the annual income return serves an important purpose in analyzing borrowers' records.

As a rule the borrower, accompanied by his wife when possible, visits the FHA supervisor in his office for the purpose of presenting his annual income return and discussing it personally. This is often the most important conference between the borrower and the supervisor in the course of the entire year. It is doubly important in the case of borrowers who are not making satisfactory progress. An amendment to the Bankhead-Jones Farm Tenant Act passed in 1946 requires that borrowers refinance their farm-ownership loans when satisfactory credit can be obtained from private or cooperative sources for this purpose. This amendment adds to the significance of checking borrowers' records at the end of each year.

Analysis of Records of Chambers County, Ala., Farm-Ownership Borrowers

The preceding discussions and illustrations in this chapter have dealt with the manner in which individual farm-ownership borrowers and FHA supervisors cooperate in making and carrying out farm and home plans and evaluating results. We will now consider the manner in which the records of individual borrowers are summarized and analyzed. An analysis of the annual income returns of 20 white and 26 Negro farm-ownership borrowers in Chambers County, Ala., covering the year 1946 revealed the following facts:

1. Nearly 25 percent of the land on the farms of the Chambers County borrowers was idle despite the fact that the farms averaged only 106 acres in size and every available crop acre should have been utilized to the limit.

2. Less than half of the available labor supply in the families of the Chambers County borrowers was being utilized productively on their farms. Farms which should have been providing essentially full-time employment were being operated in such a manner as to provide less than half-time employment.

3. Chambers County borrowers were not following the practices recommended by the experiment station in the production of cotton, their prin-

cipal crop. Their average yield of lint cotton per acre in 1946 was 152 pounds, as compared with the county-wide average of 280 pounds and yields exceeding a bale to the acre on Chambers County test fields operated under the auspices of the Auburn Experiment Station.

To be sure, some of the foregoing facts should have been evident when the annual income returns of individual borrowers were checked each year. For example, the annual farm and home plans of the respective borrowers should have provided for adherence to experiment station recommendations in the production of cotton and in other matters. However, it was not until the borrowers' records were summarized in a thoroughgoing way and compared with census and other data, that the alarming nature of the situation was fully revealed. It was then apparent that if idle acres were not put to work, idle time were not profitably employed, and good practices were not adopted very few of the Chambers County borrowers would ever pay for their farms. The crucial question was "how could the situation be remedied?" The logical answer appeared to be "by confronting the borrowers with the facts and relying upon their good judgment and willingness to cooperate in an effort to save the day before it was too late."

That is precisely what was done. The results of the analysis of the records of the 46 borrowers was prepared for presentation at an annual business and educational meeting of Chambers County borrowers. This was done early in 1948. Most of the borrowers responded favorably. A start was made in clearing land, increasing the acreage of pasture and the numbers of livestock. In other words, the first steps were taken in the direction of shifting from cotton farming to diversified farming. The results of these changes may be expected to manifest themselves in annual income returns covering the year 1949. But before relating what has taken place, let us first consider the evidence as it was prepared for presentation to the Chambers County borrowers.

Table 18 is a statistical summary of the 1946 annual income returns of 48 farm-ownership borrowers in Chambers County. It reveals several facts of significance. It will be noted on line 2 that the average farm-ownership loan in the county was $3,238. Since the borrowers made no down payments this represented their actual investments in their farms. The farms are said to be quite uniform in size and potential producing capacity. Managed equally well, the differences in income obtained by different borrowers should not be great.

Line 3 indicates that an annual installment of $120 would amortize the $3,238 debt in 40 years with interest at 3 percent. Line 4 indicates that the borrowers on the average had non-real-estate debts totaling $315. Line 5 indicated that their net worth gain in 1946 was $652. Line 6 showed that the total cash income was $1,595. The average family living expenses was $495. The average farm-operating expense was $612.

Line 9 indicates that the borrowers had net incomes of $508. Line 10 indicates that they paid $143 on their non-real-estate debt. Line 12 shows that they paid $198 on their farm-ownership loan. This was 12 percent of the gross earnings. Lines 14 and 15 indicate that the borrowers paid 1.7 annual installments in 1946 and were $118 ahead of schedule at that time.

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The facts presented in table 18 can be evaluated intelligently only when they are considered in connection with certain background information. For example, cotton sold for 35 cents a pound in Chambers County in 1946. The average price in the years 1937 through 1941 was 10.3 cents. The average price in 1942 through 1946 was 23.2 cents. From a price standpoint, therefore, 1946 was an exceptionally good year. It was also a good year from the standpoint of cotton yields. The county average was 280 pounds of lint cotton per acre, whereas it was only 180 pounds for the years 1936–41 and 262 for the years 1942 through 1946.

TABLE 18.—*Statistical summary of 1946 annual income returns of 48 farm-ownership borrowers in Chambers County, Ala.*

		County average	Our farm
1	Number farm-ownership families	48	
2	Total farm-ownership loan	$3,238	
3	Annual installment	$120	
4	Debts other than farm-ownership	$315	
5	Net worth gain or loss	$652	
6	Total cash income	$1,595	
7	Family living expenses	$495	
8	Farm-operating expenses	$612	(Borrowers personal record to be entered in this column.)
9	Net cash income	$508	
10	Net debt repayment	$143	
11	Capital expenditures	$131	
12	Farm-ownership payment	$198	
13	Percent of total cash income paid on farm	12	
14	Number scheduled payments made this year.	1.7	
15	Amount ahead or behind schedule	$118	

Figures 29 and 30 gave the Chambers County borrowers "a look behind county averages." While it may have been comforting to know that the average borrower was $78 ahead of schedule, figure 29 (A) revealed that the high half of all borrowers were $170 ahead of schedule whereas the low half were $14 behind schedule. In view of the good crops and good prices, this fell far short of being good enough. As a matter of fact, it was the high fifth of the borrowers averaging $323 ahead of schedule who were responsible for most of the advance payments. The low fifth of the borrowers averaged $37 behind schedule. "Schedule" in this case is the amount required to amortize the principal of the debt in 40 years.

Figure 29 (B) entitled "Chambers County FO Borrowers Can Raise Their Own Wages by Increasing Production" was designed to provide incentive for adopting better practices of cotton production.

Since the average Chambers County borrower was getting only 152 pounds of lint cotton per acre, he was receiving a wage of around $5.70 per day for work in the cotton fields. By producing 350 pounds he could increase his daily wage to $13.35; by producing 450 pounds or more, he could increase his daily wage to $18.75.

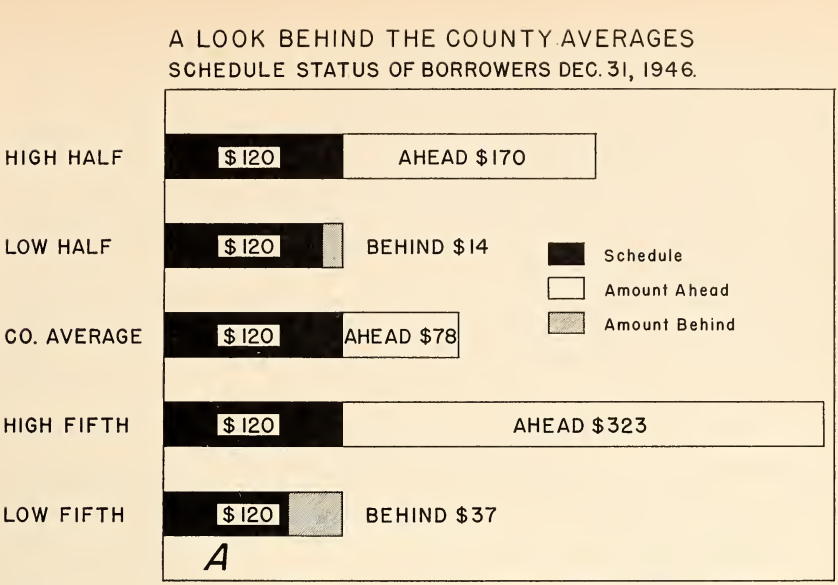


FIGURE 29A

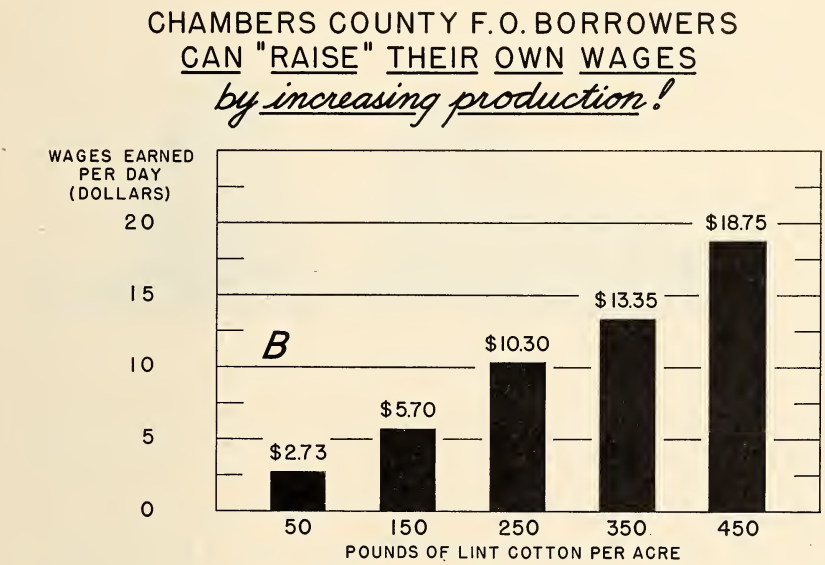


FIGURE 29B

The Auburn Experiment Station furnished the answer to the question: "How can the cotton yields be increased?" It was done on Chambers County test fields by planting right varieties at the right time, using the right kinds and amounts of fertilizer and following proper cultural practices in general. The experiment station had obtained yields of 495 pounds per acre from a variety called Cook No. 133; yields of 522 pounds per acre from a variety called DPL No. 14; 625 pounds per acre from the Stonewell variety.

The advantages of early planting were revealed by yields of 692 pounds per acre on cotton planted after April 30 and 1,091 pounds on cotton planted before April 15 and yields of 1,180 pounds on cotton planted before April 1. Chambers County borrowers could have increased their income from cotton in 1946 by $897 had they planted the highest producing variety before April 1. But unfortunately, they did neither of these things.

Perhaps the most significant chart prepared for presentation to the Chambers County borrowers was figure 30, entitled "Available and Utilized Labor on Average FO Farm."

There were on the average 5.8 persons per family occupying farms in Chambers County. Excluding Sundays, holidays, and school days and computing labor on the basis of adult-man equivalents, there was an average of

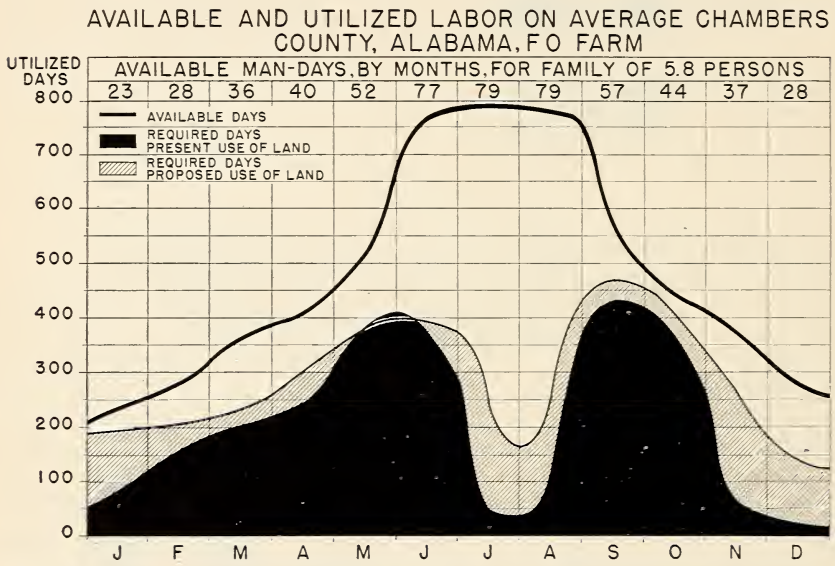


FIGURE 30

580 days of labor available per farm but only 246 days were utilized. Thus, only 42 percent of the available labor supply was productively used on the farms.

The labor utilized reached a peak in May and June when the cotton crop was in the making. During July and August when children were out of school, days were long and favorable for outdoor work, the labor input on the farms reached the low point for the year. It jumped to a peak in September and October when cotton picking was in progress and fell back to a low level again in November–December. The cross-hatched area on the chart shows the labor requirement for operating the farms after proposed changes were made.

The foregoing tables and figures constitute the evidence offered in support of the charge of "bad farming" brought against the Chambers County farm-ownership borrowers. They did not deny the charge. Some of the

borrowers indicated that they would have appreciated receiving the information at an earlier date.

The question was how to start a corrective program. While this was a matter to be worked out in detail with individual borrowers, there were some over-all recommendations. Table 19 indicates the proposed changes in the use of land. It will be observed that no immediate changes were proposed in the acreage devoted to cotton, corn, permanent pasture, and timber. The first move was to utilize the idle acres by clearing off brush, preparing seedbeds, and sowing sericea lespedeza. There was also to be an increase in the acreage of hegari. These two preliminary changes were to open the way for increasing the number of animal units per farm.

TABLE 19.—*Proposed changes in use of land*

Crop	Acres	
	1946	1947
Cotton	14	(1)
Corn	20	(1)
Permanent pasture	12	(1)
Timber	25	(1)
Hegari	.5	7
Oats	4	(2)
Kudzu	2.7	(2)
Idle land	25	None
Sericea	None	25
Farmstead	3	3

[1] No change. [2] Discontinued.

TABLE 20.—*Estimated effects of changes in use of land*

Item	1946	1947
Idle acres	25	None
Number of cattle	4	17
Livestock income	$350	$1,200
Net income	$508	$1,178
Increase in net income	.....	$670

Table 20 indicates the estimated effects of the proposed changes in land use. These changes are reflected primarily in an increase of $670 in estimated cash income. It should be emphasized that the proposed changes were evolutionary, not revolutionary. When the transition from a cotton economy to a diversified-farming economy is complete one may expect to find from 10 to 15 dairy cows per farm, 30 to 45 acres of improved pasture, 6 to 8 acres of cotton which should produce about as much as the 14 acres per farm now produce. There will also be 1 or 2 brood sows and 150 good laying hens on each farm. There will, of course, be individual variations from this general pattern.

Chambers County Borrowers Start Making Improvements

Table 21 indicates the progress made by the farm-ownership borrowers in Chambers County during the calendar year of 1948. In addition to the facts presented in the table, there were other evidences of progress. One hundred and fifty rolls of barbed wire were purchased for use in building fences. Eighty percent of the wire purchased had been installed by December 31, 1948. Thirty-eight of the borrowers planted the recommended variety of cotton, 20 of them planted cotton before April 15, 40 of them treated their cottonseed, 30 families had increased the quantity of food canned to 75 quarts per person.

TABLE 21.—*Progress made by Chambers County borrowers in 1948*

Item	Jan. 1, 1948	Dec. 31, 1948
	Number	*Number*
1. Families selling milk	16	30
2. Cows owned by borrowers selling milk	96	165
3. Acres of kudzu	210	220
4. Acres of serecia	75	213
5. Acres of oats	100	161
6. Acres in pasture	400	452
7. Acres of manganese clover	21	34
8. Acres of alfalfa	14	30
9. Acres of crimson clover	22	94
10. Acres of hegari	67	108
11. Acres land cleared for grazing	[1] 50	[2] 71
12. Total income for borrowers from sale of milk:		
(*a*) 1947 $9, 726. 24		
(*b*) 1948 14, 862. 12		

[1] Temporary. [2] Permanent.

Report of 1949 Annual Meeting of Negro Borrowers in Chambers County

The following quotations from a Farmers Home Administration instruction will indicate the purpose and nature of borrowers' annual meetings.

Annual business and educational meetings of farm-ownership borrowers will be held each year for the purpose of assisting the borrowers to realize further benefits from their records. Their records and related data from such sources as experiment stations, the Agricultural Census, County Agricultural Conservation Payment records, and so forth, will be studied by the county supervisor to determine the comparative efficiency of various systems, methods, and practices of farming and home making. Significant facts and tentative conclusions drawn by the county supervisor from the study will be presented in the annual meeting and made the basis for discussion. The borrower will thus arrive at group decisions and conclusions with respect to the facts revealed by their records. This should lead to action which will result in improvement of the individual plans and operations of borrowers, based on actual borrower experience and supported by group analysis, discussion, and decision.[5]

On February 15, 1949, the author attended the annual meeting of Negro farm-ownership borrowers in Chambers County. It was held in the Negro

[5] FHA Instruction 437.2, I, B (December 21, 1949).

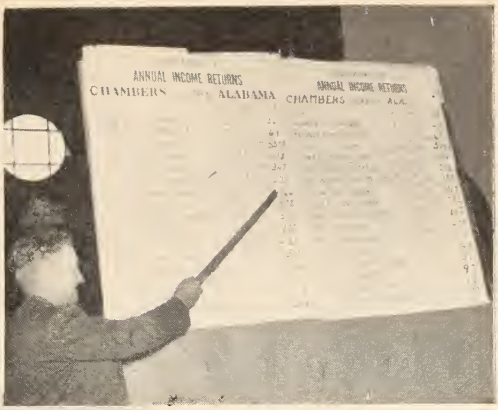
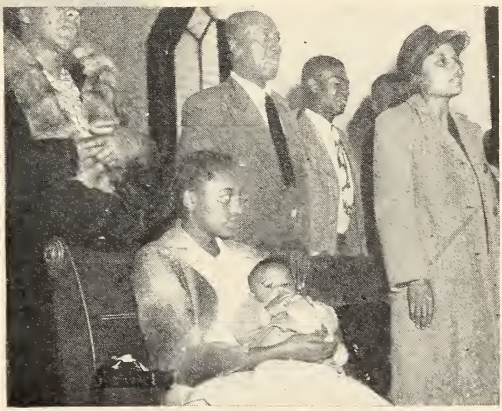


FIGURE 31.—Britt Higgins, Chambers County FHA supervisor, directs attention to the major defect in the farming operations of 26 Negro farm-ownership borrowers. Their 1948 total cash income averaging $1,166 all agreed was woefully inadequate. The 24 families attending the annual borrowers meeting spent the day figuring how to make their farms produce bigger returns.

Annual business and educational meetings of farm-ownership borrowers are held in churches, school houses, court houses, lodge halls, and other suitable places including borrowers' homes. On February 15, 1949, the borrowers pictured here met in the Negro Methodist Church in LaFayette, Chambers County, Ala.



Mrs. Lula Carlisle pictured here in the front row led the Chambers County borrowers in singing spirituals. The meeting was opened with prayer. Borrowers enjoyed a basket dinner together during the midday intermission.

Methodist Church in LaFayette, county seat of the county. Twenty-four out of twenty-six farm-ownership families were represented. The meeting was opened by prayer by one of the Negro borrowers. A borrower's wife, Mrs. Lula Carlisle, led the singing of a spiritual entitled, "Lord, I Feel So Much Better Since I Laid My Burden Down."

B. B. Higgins, the county supervisor, made the introductory statement. He is pictured on page 239 pointing to the figure $1,166, the average total cash income of 26 Negro borrowers in 1948. The companion chart shown

in the picture presents a summary of the records of both Negro borrowers and white borrowers.

It is fortunate that the photographer snapped County Supervisor Higgins at the moment his pointer fell upon the total cash income item. He announced that the day would be devoted primarily to considering ways of increasing that figure, and that, in fact, turned out to be the point around which most of the discussion centered.

W. I. Barnes, assistant county supervisor, was director of discussion for about an hour before the luncheon period. He directed attention to the figure $3,308, which represented the average investment of borrowers present in their farm-ownership farms. He asked if anyone would sell his farm for that amount. Borrower Steve Doss said, "You can't buy my farm for that," and there was unanimous agreement with Doss' position. It was also agreed that it would take at least $6,000 to buy a farm as good as those owned by the farm-ownership borrowers. Obviously, borrowers were aware that they had good investments well worth protecting and preserving.

Next there was discussion of the average annual payment of $118 on the farm mortgage debts. Borrower Theodore Wright expressed the view that the average payment was not as great as it should have been, considering the price for cotton and other favorable conditions. Borrower Dewey Henderson said that two bales of cotton was the "going rental" for a two-mule farm such as he and others present were operating. Borrower William Smith pointed out that two bales of cotton were worth $300 and borrowers had, therefore, paid less than half as much on their loans as they would have been obliged to pay if they had been operating their farms as renters.

Borrowers and borrowers' wives shared the view that it was not practical to reduce the $378 average expenditure for family living. Also, there was mutual agreement that the farm-operating expenses could not be reduced if good farming practices were to be followed. Some held that average capital expenditure of $54 was probably much too low since one of the best ways to make more money is to spend more, provided, of course, the investments are good ones. It was agreed, among other things, that good dairy cows would pay for themselves.

When the meeting reconvened after a picnic lunch and social hour, Marjorie L. Andrews, led a discussion on home improvement in which borrowers' wives took the leading part. Several were called upon to report upon the improvements they had made during the past year. It developed that some homes had been painted and that electric lights had been installed in some. Miss Andrews, an employee of the Rural Electrification Administration, gave many practical suggestions on inexpensive but useful electrical fixtures.

Willie Lawson, Negro county agent for Chambers County, then led a discussion on the general subject of "better pastures, more livestock, and more income." Pasture mixtures, the number of acres required for a given number of animal units, a system of permanent pastures and annual crops to provide feed the year around and many other points were touched upon.

C. H. Bedingfield of the State FHA Staff discussed "Idle Hours and Loafing Acres." The general subject of the day was not changed. Nor was it changed when FHA Field Representative J. E. Washington summarized the meeting. He merely checked up on what had been accomplished by borrowers in 1948 and what should be done in 1949. All borrowers reported that they had purchased their cotton seed of the recommended variety. They expected to plant their cotton early. Some had already started spring plowing.

"Don't Forget the Family Prayer" was the spiritual which brought Chambers County meeting of Negro borrowers to a close. As the 24 families stood in the church auditorium and sang it in unison and impressive improvised harmony, one could not avoid the wish that everyone interested in the welfare of land and people might have witnessed the entire proceedings of that day. To be sure the last chapter has not yet been written. Changes for the better are only well started but on the basis of what I saw and heard, I am convinced that the borrowers have the will to do better. They now see the way, at least the beginning of the way, leading to better farming and better living. "Idle hours and loafing acres" appear to be on the way out on the farms of Negro borrowers in Chambers County.

Many Annual Borrowers Meetings Are Held

In 1949 annual business and educational meetings of farm-ownership borrowers were held in 55 of Alabama's 67 counties. This is fairly typical of what happened in other States. In 1948, the latest year for which complete reports are available, annual borrowers meetings were held in 1,255 counties of the United States. Invited were 35,650 borrowers, and 16,415, or 46 percent of them, were represented. Thirty-five percent of the borrowers' wives attended. Twenty-three hundred and eighteen county Committeemen were present.

Naturally, no two annual borrowers meetings are alike. They do, however, have certain fundamental characteristics in common. They are built around facts revealed by an analysis of the borrowers records. They stress discussions "that lead to action" rather than speech making. The person who analyzes the records, usually the county supervisor, must, of course, interpret his analyses. Usually, he knows all the borrowers personally and, therefore, knows which borrow has the best answer to another borrower's question. Committee of borrowers often have charge of general arrangements, such as time and place of meeting, entertainment features, dinner, etc.

A social hour at lunchtime is emphasized. Many borrowers know each other and have much in common. They enjoy visiting together. Pictures are being used increasingly, preferably pictures taken on borrowers' farms which illustrate good practices of farm management or home management. Movies or colored slides that are interesting or entertaining are sometimes shown during the social hour.

In reporting upon his 1949 meetings, one State director said:

This year more emphasis was placed on holding smaller meetings, with two noticeable results: First, the attendance was better; and, secondly, interest of families showed a big improvement. A few families usually in the same neighborhood know each other better, their problems are more alike,

FIGURE 32.—The first farm-ownership achievement day on a State college campus was held at Ames, Iowa, in 1947. The idea has spread. Pictured above are between 2 and 3 thousand FHA borrowers gathered at Purdue University, LaFayette, Ind. Following a big meeting in the auditorium small groups inspect the college farm.

and they do not seem to have that timidity that so often prevents them from expressing themselves in a larger group. Another very important point in connection with attendance at small meetings held at a borrower's home is the value of the borrower and his wife issuing invitations to meet at their home. The importance of this point cannot be overlooked. Experiences this year prove conclusively there is much value in this procedure.

A county supervisor reporting upon the meeting held in his county in 1949 said:

Ninety percent of the group took part in the discussion. At the beginning of the meeting the clients were told that the supervisor would mail them in letter form a complete outline of improvements in their farming methods which they themselves agreed on during this discussion.

Mr. and Mrs. Ernest Carlson, paid up borrowers of Paton, Iowa, both signed a letter to B. W. Lodwick, State FHA director for Iowa, under the date of April 15, 1947, in which they said:

We especially liked the yearly county meetings of other tenant-purchase families where our figures of incomes and expenditures were charted with those in similar circumstances. These comparisons gave us an inkling into many sound ideas that proved helpful in achieving our final loan payment. They also helped us to weed out some practices that were not always so beneficial.

The record books that were given to us to keep during our years with the FHA have proved to be a "must" in our yearly plans. Never again could we conduct our farming operations in the right way without having a complete record book as a measure of our success or failure at the close of the year.

Making Supervision Effective Has Been a Continuing Administrative Problem

The following quotations from official sources will reveal that the struggle to vitalize the supervision of farm-ownership borrowers was started very soon after the Bankhead-Jones Farm Tenant Act became effective and has been continued without interruption since that time.

The monthly report of the Farm Ownership Division for October 1938 contained the following statement under the heading "Tightening Up On Farm and Home Management Requirements:"

All instructions pertaining to TP loans have from the outset stressed the fact that such loans are to be based on sound farm and home management plans. It has therefore been disconcerting to find unmistakable evidence that at least some loans have been made that were not preceded by a clear-cut understanding between the borrower and his wife, on the one hand, and the farm and home supervisors, on the other, with reference to the plans for operating the farm and the household.

In addressing the regional farm-ownership chiefs in Washington, D. C., on June 5, 1939, the director of the Farm Ownership Division made the following statement on "Kind of Farming Practices on FO Farms:"

Farms bought right must be farmed right . . . I have directed attention to provisions in the act requiring the Secretary to determine that the farms purchased shall be economic farm management units and that proper farm-

ing practices prescribed by the Secretary shall be carried out. I know of no way by which these legal mandates can be fulfilled other than by the process which we call farm and home management planning and related supervision. It is in carrying out this process that we arrive at a meeting of minds with the borrowers and record the results in a form that will facilitate future reference . . . The essential thing which the Bankhead-Jones Farm Tenant Act does is to authorize more liberal loans to eligible persons to enable them to purchase farms than has heretofore been available from private or public sources. From the standpoint of security these loans go beyond the limits that have been fixed by custom and experience. We are supposed to counteract and offset these liberal features by sound planning and by intelligent supervision. Nothing in our whole program is more important than that this be done well . . .

When I speak of developing farm and home plans, I have in mind a layout of the fields and fences and buildings which will contribute to the maximum efficiency in the operation of the farm; and such a cropping, rotation, and livestock management system as will be consistent with conserving the soil, bringing the income to the highest practical level, and keeping the expenses to the lowest practicable point, etc. There is nothing in the act of recording plans on paper that in itself improves the business operation of the farm. There is danger that this mechanical process may become a substitute for real planning. There are various devices for making farm plans balance out on paper, such as overestimating yields, overestimating prices, and leaving out unavoidable expenses. All of them have been resorted to.

On July 16, 1945, FSA Administrator Frank Hancock sent the following letter entitled "Making Supervised Credit Mean What It Implies" to all regional directors. The letter was subsequently read and discussed at a series of regional conferences attended by regional and State FSA employees and was transmitted to practically all county supervisors in the United States.

Office of the Administrator.

July 16, 1945.

To: All Regional Directors.
From: Administrator.
Subject: Making Supervised Credit Mean What It Implies.

It is the chief business of the Farm Security Administration to improve the circumstances of low-income farm families by providing them with ways and means for farming better and living better.

On the basis of information obtained from sources which I consider reliable, supported in some measure by my own personal observations, I am convinced that too much bad and indifferent farming is being done by FSA borrowers and that too little is being done to correct the situation by staff members who are employed primarily for that purpose. Too many fields that need cover crops have no cover crops. Too many that should be farmed on the contour are not so farmed. Too many pastures that could be made to produce twofold or threefold are left unimproved. Too much of the livestock on FSA farms is of poor quality and poorly cared for.

I, therefore, urge, starting now and continuing indefinitely, that there be fresh, vigorous, and sustained concentration upon our prin-

cipal and primary task. Our county supervisors must be selected, motivated, and trained in the practical art of converting unsuccessful farm and home operators into successful farm and home operators. Regional, State, and district personnel are responsible for developing, motivating, and directing staffs of county workers to do this job. Administrators have a responsibility to perform that cannot be left to specialists.

It is altogether proper that Farm Security be judged, and that its responsible employees, administrative and technical be *judged and rated,* by the extent to which we measure up to the evident implications of the expression "supervised credit." Those implications are that beneficiaries of supervised credit farm better, live better, and make larger contributions to the welfare of their communities and their country than they did before they were supervised. There is just cause for pride in a service which achieves such results. I am told, however, that an apologetic attitude toward supervision is not uncommon in the field. This may well be due to ineffectual supervision and a misconception of what supervision really ought to be. And let me make it clear again, as I have many times heretofore, that it does not mean paternalistic coddling, or anything which even remotely smacks of regimentation.

The national office will wholeheartedly support and assist every regional director who undertakes to make supervision mean all that it ought to mean in his region. The respective operating divisions have furnished, and as need arises will continue to furnish, ample tools to do this job. It should not, however, be incumbent upon members of the national staff to bring to light in any region undiscovered evidences of lax supervision or widespread noncompliance with policies and procedures. Where lax supervision or noncompliance with policies and procedures exist, I shall expect them to be discovered and corrected by regional directors.

I am fully aware that much splendid supervisory service has been and is being rendered. In fact, Farm Security's demonstrations of successful rehabilitation have set the pattern with which we must now more universally conform. The higher standard of performance called for in this letter is to be the permanent and consistent policy of Farm Security under my administration.

(S) Frank Hancock

In June 1946, an Annual FSA Planning and Policy Conference was held in Washington, D. C. Significantly, the theme of that conference was "Making Good on What FSA Stands For."

On February 16, 1948, FHA Administrator Dillard B. Lasseter sent a strong letter to all State FHA directors in which he said in part:

. . . Borrowers must be assisted in developing farm and home plans that they really understand and expect to put into effect—plans that provide for the successful operation of their farms.

I am putting the responsibility for carrying out this policy where I think it belongs—squarely on the shoulders of State directors. You in turn will be expected to hold each member of your staff responsible for carrying out his proper assignment. You may be sure that the Washington staff will render all possible assistance.

On April 14, 1949, Administrator Lasseter sent out another letter on the same theme. This letter was sent to all State directors, field representatives, and county supervisors. Significant portions are quoted below:

Office of the Administrator.

April 14, 1949.

To: All State Directors, Field Representatives, and County Supervisors.
From: Administrator.
Subject: Good Farming.

A year ago last February, I sent a letter to all State directors in which, among other things, I said: "On many occasions I have emphasized the fact that the success of our program depends on getting good farming done on the farms of our borrowers. Families to whom we are supplying supervised credit are supposed to be doing good farming. I have become greatly disturbed by reports that many of our borrowers are not measuring up to this simple standard either because supervisors are not sufficiently familiar with what constitutes good farming or because they are not effective in getting borrowers to practice good farming."

When I went before the Agriculture Subcommittee of the House Committee on Appropriations to present our budget this year, I was questioned on this very point of good farming by the subcommittee's able chairman, Jamie L. Whitten. Mr. Whitten has a thorough first-hand knowledge of our program and has supported it consistently in committee and on the floor of the House . . .

I am attaching a copy of portions of the hearings which deal with this subject. I want every employee of the Farmers Home Administration who is directly or indirectly responsible for supervising borrowers not only to read it but also heed it . . .

Henceforth, the Farmers Home Administration must concentrate on making loans which will result in the kind of farms and the kind of farming that ought to be perpetuated in this county. If we understand this and borrowers understand it before they become borrowers, our efforts ought to and, no doubt, will merit the approval of Congress and the public in general.

Our policies and official instructions authorize the sort of loan program I am describing. There need be no delay in conforming with the spirit and intent of this letter. Fortunately, many are doing so already. I am pleased to commend them for their splendid achievements as they have demonstrated what can be done.

Farming methods must be adapted to conditions in each locality. It is your responsibility to draw upon experiment stations, extension services, the Soil Conservation Service, Production and Marketing Administration, and other reliable sources and see that our borrowers are guided as to proper systems and methods of farming. I have confidence that you will meet your responsibilities.

Dillard B. Lasseter.

Subcommittee Clarifies the Views of Congress on the Subject of Supervision

Portions of the hearings before the subcommittee of the Committee on Appropriations of the House of Representatives referred to by Mr. Lasseter

in the foregoing letter are quoted below. Whereas the statements of the select committee which investigated the activities of the Farm Security Administration stress some of the things to be avoided in supervision, the following questions and answers stress some of the things to be achieved by supervision.[6]

Mr. WHITTEN. Mr. Lasseter . . . How close contact do you keep with the present purchasers of farms as to whether they are carrying out the intent of the original act and living up to their obligations?

Mr. LASSETER. We keep just as close touch, Mr. Chairman, as we possibly can through our county supervisors, field representatives, and State directors in the States . . .

Mr. WHITTEN. In the actual agreement between the Government, or between the Farmers Home Administration and the purchaser of the farm, do you reserve the right to or require that he must live on the farm and actually operate it as a family-type farm and as a home? And further, do you require that in the operation of the farm, he must cooperate with the Soil Conservation Service, the Production and Marketing Administration, and thereby improve the land in line with the various governmental programs which are financed by the Government? And further, in line with one of your recognitions that the family-type farm must reduce costs through improved methods of production and the adoption of the improved management practices, I am wondering what leverage, if any, you have to require the proper operation of that farm once it is purchased?

Mr. LASSETER. I think we have a good deal of leverage, Mr. Chairman.

Mr. WHITTEN. What does the purchaser agree to do?

Mr. LASSETER. He agrees to all of those things you have mentioned and he agrees to live there (on his farm). Of course, you may be referring to some of them who want to leave the farm on finding that prices have gone up and want to sell it, and take their profit out of it. I know that probably applies in some cases. After the 5-year period, I think they have the right, if they want to, to sell it. But the proportion of those is infinitesimally small.

Mr. WHITTEN. During the first 5 years, if I understand you correctly, they do not have a right to resell it?

Mr. LASSETER. That is right. . . .

Mr. WHITTEN. In that 5 years, though, he does not have a right to sell it, and do you have a right to take it back if the purchaser fails. That is, provided the purchaser meets the payments but he fails to live on it, he fails to properly operate it, he fails to work the land within the approved practices set out by these programs on which the Federal Government is spending millions and millions of dollars trying to bring about the proper use of land and in some cases restoration of land?

Mr. LASSETER. I think we would have the legal right to take it back under those circumstances. I think to preclude all of that is the selection of the proper families. If you have a man interested in farming, who knows nothing else, and wants to be a successful farmer, you do not have that problem. Legally, I think we could take it back. I am sure we could if he showed flagrant disregard for maintaining the Government's security.

Mr. WHITTEN. The reason I ask: The Federal Government here spends each year $260,000,000 or $275,000,000 through the triple A program to bring about the proper use of land. In addition to that, we spend millions

[6] See statement on supervision by Select Committee in ch. V, p. 79.

and millions of dollars in financing the Soil Conservation Service for the purpose of planning the proper use of the land and then of putting into practice the proper use. And the question arises in my mind whether it is proper, in any Government-financed farm-purchasing plan that they should not carry out the programs which this Government recognizes, has put its stamp of approval on, and in which it spends in excess of $300,000,000. And if your contract does not so provide, I wonder if it should not so provide. . . .

Mr. LASSETER. I am in sympathy with the objectives there. But I again think with respect to our borrowers, that it is not a big problem. I think the record and the percentage of our people who do these things you cite as desirable would be very high, Mr. Chairman. . . .

Mr. HORAN. Mr. Chairman, you run into the element there of human nature in the danger of any Government agency acting in any way that might appear arbitrary.

I visited a lot of work last fall, done under this appropriation, and I found a lot of cooperation. They looked at it as wise farming . . . I agree with the chairman that there comes a place where the element of common sense has to be applied in the use of these funds, and in the extension of credit to any given individual who might react in a way that would destroy the very security the Government hopes to get out of the good will that attends it. . . .

Mr. WHITTEN. In connection with the statement of my colleague, I certainly am in accord with his statement with regard to requiring too much of the borrowers, such as having to buy from a given cooperative or make purchases any other place. But if the Federal Government, and I am opposed to requiring those who have already contracted to do anything beyond their contract, but if you are going to provide funds for the man's use, I do not think it improper to attach to it a provision that he must use good farm practices. If the Federal Government thinks these farm practices are sufficiently good to spend over $300,000,000 a year to enforce, I think the Farmers Home Administration would be strictly lax not to accept them as being helpful farm practices. And it would not be out of order to attach such conditions, those conditions alone. I do not mean to go farther and try to put the purchaser of a farm through the Farmers Home Administration in a strait-jacket, but to say to him: If you accept this money you must do these things which the Federal Government is spending millions of dollars to get done, and you should do it anyway, because that is the best way for you to make a go of it.

Mr. LASSETER. I think I can enlighten the committee on that point. When we lend a man money to buy a farm we have already spent that. But very often, the man who bought the farm needs operating loans, too, and we can certainly suspend those loans if he does not adopt these proper farming practices.

Mr. WHITTEN. In practically every case, the purchaser does obtain an operating loan?

Mr. LASSETER. In practically every case. We have a very tight hold over them there. We also require him, then, to follow these proper farming practices, and we can, according to the Solicitor, foreclose even though he meets the payments if he begins to let his land go down or his buildings fall apart on the basis that the Government's interest is being jeopardized through his lack of attention to these farming practices. We do foreclose on a purchaser who has failed to operate satisfactorily.

Mr. Whitten. The whole point is not to foreclose . . . The point is to have an understanding with him early enough so there would not be any necessity for foreclosure. We want him to pay for it (his farm) and to operate it in the best way for his own good. I say that there should be an understanding at the start which would prevent the situation you describe.

Mr. Lasseter. We have it now. I say there are extremely few, the cases where this happens.[7]

The questions and answers continued for a time on the need for better coordination between department programs. At one point Congressman Whitten said:

I do not want any patronizing on the part of the Government. And it is more patronizing to put up money for a man to farm and then turn him loose than it is to have an understanding with him at the start as to what he should do and then expect him to do it, because it is for his protection, after all, and to help him to finally pay for the farm.

Summing up his attitude on the entire matter of good farming practices and interagency cooperation, Mr. Lasseter said:

I want to make this statement and to make it just as strong as I can. We are in full agreement with the philosophy you have stressed here, and not only that, but we are following it up in practice. If we did not do that, and if we do not exert ourselves to the utmost to see that these people observe these farming practices and take advantage of these other programs, practically, I would recommend we get out of the picture . . .

Mr. Whitten. . . . There has been a strong temptation to let a man grow cotton in the cotton area and to take the price paid in the last few years and apply it on his debt. I do not know whether that has been too bad. If it is carried on too long, I know it could be bad and I doubt whether it would be good in other regions to let money crops deplete the soil. Now is the time to take stock and see if we should not get back a little bit more to diversification and to proper farming as taught by the Department of Agriculture and as borne out by the results of research which my colleague from Washington has mentioned.

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[7] In this connection see Agreement Between Farm-Ownership Borrowers and Farmers Home Administration reproduced in ch. VI, p. 111.

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Chapter XI

VARIABLE PAYMENTS

Variable Payments Originated in Ancient Times

The following quotation from the Code of Hammurabi, King of Babylon about 2250 B. C., suggests that the ancients took into account the ever-shifting fortunes of farmers in developing a credit policy in their time: "If a man owe a debt and a storm inundates a field and carry away the produce, or, through lack of water grain hath not grown in the field, in that year he shall not make any return of grain to the creditor, he shall alter his contract tablet and he shall not pay the interest for that year."

The Law Authorizes a System of Variable Payments

One of the recommendations contained in the Report of the President's Committee on Farm Tenancy (February 1937) reads as follows:

Since farming is a business characterized by highly variable income, it is recommended that the corporation [1] be authorized to institute a system of variable payments under which a surplus above the average annual payment required would be collected in favorable years, and employed to reduce payments below the basic average in unfavorable years. Such a policy is now used by certain insurance companies.

The traditional fixed annual payment have done much to nullify efforts of farmers to achieve permanent ownership, and thereby have increased tenancy. Choice of methods of instituting variable payments should be left to the corporation to allow for differing conditions in the several sections of the country.

One plan might vary payments from year to year according to the current value of a fixed percentage of the farmer's major product or products. Payments would thus approximately fluctuate according to the gross income of the farm.

The Congress not only acted favorably upon the foregoing recommendation but, as will be noted by reading of section 48 of title IV of the act quoted below, it incorporated into law much of the language used by the land-tenure committee.

The Secretary may provide for the payment of any obligation or indebtedness to him under this act under a system of variable payments under which a surplus above the required payment will be collected in

[1] The President's Committee on Farm Tenancy recommended that "an affiliate of the Farm Security Administration be formed, to be known as the "Farm Security Corporation." This corporation under a board of directors consisting of the Secretary of Agriculture, Under Secretary, and three other responsible officials designated by the Secretary was to "unify the administration" of the proposed act.

period of above normal production or prices and employed to reduce payment below the required payment in periods of subnormal production or prices.

The above section is the most definite and tangible recognition to be found in Federal farm-credit legislation that farming as a business is characterized by ups and downs and that the debt-paying ability of borrowers rises and falls correspondingly.

Interpreting the variable payment provision.—No difficulty was experienced in interpreting the variable-payment provision of the Bankhead-Jones Farm Tenant Act. It clearly provided that payments made to reduce obligation were to fluctuate up and down as production and prices rose or fell above or below normal. The use of the expression "any obligation or indebtedness," however, suggests that the privilege of paying more or less was to have application to individual borrowers. In administering the act it would, therefore, be necessary to determine in some way whether an individual borrower's production and prices were above or below normal. That point was important for the obvious reason that an individual borrower's situation might not be reflected at all by National, State, or even by county indices of production or prices. For example, floods may completely destroy the crops of a few river-bottom farmers during a season when all surrounding upland farmers are blessed with bumper crops, or one farmer may sell his wheat or cotton just before a sharp decline in the market while his less fortunate neighbor sells just after the price drops.

Literally, the expression "a surplus above the required payment will be collected in periods above normal production or prices and employed to reduce payments below the required payment in periods of subnormal production or prices" appeared to contemplate that, before there could be any reduction in payment, a reserve must first be built up and that this reserve would be drawn upon to reduce the required payment in periods of subnormal production and prices. The variable payment plan evolved and followed from the inception of the program until the act was amended in August 1946, did not conform strictly to this literal interpretation. It did, in the judgment of the Farm Security Administration, apply the principle embodied in the law in the most practical manner and achieve its objectives more completely than any other plan the Administration was able to devise.

As will be noted later in this chapter a provision was included in the 1946 amendment to the Bankhead-Jones Farm Tenant Act which compelled adherence to the principle of the prepayment reserve. It is fortunate, from the standpoint of developing a sound long-range farm mortgage credit policy in this country that several years of experience was gained under a more flexible system of variable payments than is permitted by the act since its amendment.

Preliminary Plan Was Based on Crop and Price Indices

Although the intent of the variable payment provision was clear it was no simple matter to develop a practical, workable plan for putting it into operation. The first variable payment plan developed by the Tenant Pur-

chase Division followed very closely the recommendation of the President's Committee on Farm Tenancy, namely, that payments vary "from year to year according to the current value of a fixed percentage of the farmer's major product or products." But that plan was never put into effect. It was issued January 22, 1938, in a document entitled "Administration Instruction 137—Tenant Purchase Procedure." The tenant-purchase staff had been in existence less than 5 months when the plan was released. It had been necessary during the early months to devote more attention to making loans than to servicing them. Consequently, variable payments did not receive major consideration. The variable payment plan finally adopted bore no resemblance whatsoever to the original one based on crop and price indices.

The primary reason for abandoning the original plan was that crop and price indices could not be refined sharply enough to disclose the debt-paying ability of an individual borrower on an individual farm growing certain crops or combinations of crops and livestock and livestock products. The best formulas that could be devised were complicated in their application and the results promised to make the sponsors appear rather ridiculous in the eyes of the borrowers concerned.

Shifting to a Variable Payment Plan Based on Net Cash Income

As the difficulties of administering a variable payment plan based on price and production indices became more and more apparent the Tenant Purchase Division turned its attention to developing a variable payment plan based on net cash income. The process of change from the preliminary to the final plan is revealed by correspondence, reports, minutes of meetings of the Farmers Home Corporation Board, and other documents. The daily diary of the Director of the Tenant Purchase Division for that period contains the following entries: April 2, 1938, "Discussed with Mr. Riggle, Phil Aylesworth, and John Brewster a variable payment plan based on net income as determined from the family record book"; April 21, "Wrote the cardinal points of a variable payment plan based on net income as determined by family record"; April 22, "Dictated memorandum to tenant-purchase staff regarding variable payment based on net income"; April 29, "Transmitted variable payment plan based on net income to regional directors for consideration and comment."

The report of the Tenant Purchase Division for the month of May 1938 reviews progress in developing the new variable payment plan up to that date in the following statement:

On April 29, the Tenant Purchase Division sent to the field a general outline for a plan of variable payments based on net income. Request was made that the plan be discussed in preparation for further consideration at the time of the regional directors' conference. There also came to the attention of the Division in May, a transcript of an address on "Fexible Repayment Plans for Mortgage Loans," delivered by F. F. Hill, Deputy Governor of the Farm Credit Administration. (Reprinted from the Journal of Farm Economics, vol. 20, No. 1, February 19, 1938.) The address, made without reference to the specific problems of the Tenant Purchase Division, pointed rather conclusively to the superiority of the net income

basis when information as to that income was available. The Director of the TP Division arranged for a conference with Mr. Hill on May 24 and the matter was thoroughly discussed from the standpoint of tenant-purchase loans. Mr. Hill indicated that various other formulae developed for flexible or variable payment were merely approximations; that since the Tenant Purchase Division has its borrowers under record and has funds for supervision it would appear altogether desirable to use the net income basis.

Other conferences on the same subject, included one with Sherman Johnson, Chief of the Farm Management Division, Bureau of Agricultural Economics, on February 13, a conference with Sherman Johnson and Mr. Riggle on February 20, and a conference with Mr. Colvin and Mr. Reinhold of the Farm Credit Administration on May 24.

On April 30, 1938, a preliminary draft of the variable payment plan based on net income was transmitted by the Director of the Tenant Purchase Division to all regional directors with the following letter:

Your attention and that of your tenant-purchase and farm-management groups is invited to the attached statement entitled "Variable Payments Based on Income."

We are not, for the present, abandoning the variable payment plan as set forth in Administration Instruction 137. We are merely perfecting this alternative plan in order that the relative advantages of the two may be carefully considered. Certain defects in the original plan are recognized. First, under that plan an attempt is made to measure the borrower's status as it is affected by yields and prices by statistical tabulations that apply to his crop reporting district rather than his individual farm. This will lead to numerous individual adjustments and force us to study individual cases anyway. Second, variable payments based on deviations from normal yields and prices fail to make due allowances for the fact that the income will fluctuate more violently than the living and operating expenses. For this reason, a drop in income of 25 percent for example, may reduce the borrower's debt paying ability to near the zero point. The farmer's net income obtained in carrying out his farm and home management plans appears to provide the most accurate measure of his ability to pay. . . .

Farmers Home Corporation Board approves variable payment plan based on net income.—The variable payment plan based on net cash income was transmitted to the Farmers Home Corporation Board by the Director of the Tenant Purchase Division on August 5, 1938, with the following statement:

There is attached a revised copy of the variable payment plan incorporating certain minor modifications growing out of the conference discussions and certain suggestions received by letter from the field. Because of the importance of the variable payment plan it is desired that formal action be taken upon it by the Board after it has been carefully considered.

The minutes of the Board meeting held August 6 indicates the action taken:

Chairman Brown stated that this subject falls in Dr. Black's [1] special field and asked Dr. Black if he had had an opportunity to examine the plan.

[1] Dr. A. G. Black, at the time Chief of the Bureau of Agricultural Economics and member of the Farmers Home Corporation Board.

Dr. Black replied affirmatively and stated that he could see no reason why the plan will not work if properly administered. He expressed the opinion that the whole scheme will collapse, however, if accurate records are not kept. This, he said, will not be done without proper supervision. County supervisors should be required to check the records periodically throughout the year and see that inventories are properly entered and that income and expenses are properly recorded. Chairman Brown expressed his agreement with Dr. Black's statement.

Advantages of revised variable payment plan summarized.—The advantages of the variable payment plan based on net cash income were summarized as follows in a divisional letter sent by the Tenant Purchase Director to all regional directors under the date of June 22, 1938:

1. It fits in with our whole scheme of supervised loans based on sound farm and home management plans.
2. It will vitalize the planning and record keeping activities and force the supervisors to closely scrutinize income and expenditures of distressed borrowers with a view to increasing their net incomes.
3. It will harmonize the borrower's repayment schedule most definitely with his ability to pay.
4. It will be more simple of operation than a variable payment plan based on certain general criteria that will require many adjustments to meet specific cases.
5. It will be accepted by borrowers as a better and fairer arrangement than one under which they are required to pay on the basis of average yields and prices which they may not have obtained.
6. It will work equally well on the one-crop farm or the highly diversified farm and therefore have universal application, whereas a system based on yields and prices of certain staple crops becomes increasingly difficult to apply as the sources of income increase.

Variable Payment Plan Based on Net Income Issued August 27, 1938

The first preliminary draft of a variable payment plan based on income, dated April 28, 1939, was superseded by a slightly revised draft dated June 22, 1938, which was distributed to the field with TP Division letter No. 4. On August 27, 1938, FSA Instruction 658.1 was issued under the title "Variable Payments." This preceded the first due dates for principal and interest payments by farm-ownership borrowers. Collections the first year, therefore, and every year thereafter until the law was amended on August 14, 1946, were made in conformance with this instruction and various amendments to it. FSA Instruction 658.1 is quoted below in the form in which it was originally issued on August 27, 1938.

VARIABLE PAYMENTS

I. Each borrower shall be permitted to choose between the variable payment plan and the fixed annual payment plan.

II. *Agreements:* Each borrower who elects the variable payment plan shall agree on Form FSA–LE 228, Agreement for Variable Payments on Net Income Plan:

A. To keep in a manner prescribed by the FSA a complete and accurate record of income and expenditures incurred in carrying out his Farm

and Home Management Plan and to summarize this record promptly at the conclusion of the record year so that the amount of his net cash income may be determined.

B. To make such record available for examination at any time by the county RR supervisor, home-management supervisor, or other representative of the FSA.

C. To apply all of his available net cash income toward the retirement of his TP loan when he is behind schedule with his interest and principal payments, and such portion of his net cash income for that purpose as may be required by the FSA when he is ahead of schedule with his interest and principal payments.

D. To abide by the decision of the FSA as to whether progress made in retiring his debt under the variable payment plan is satisfactory, or whether the record kept of income and expense is sufficiently complete or accurate to determine the net income; and when it is determined by the FSA that progress in retiring the debt under the variable payment plan is not satisfactory, or that the record kept of income and expense is not sufficiently complete or accurate to determine net cash income, to change over to the fixed annual payment method and pay all delinquent interest and retire all remaining unpaid principal by annual instalments of principal and interest so computed as to complete the retirement of the debt within 40 years from the date the loan was obtained.

III. *Ahead or behind schedule:*

A. In determining whether a borrower who is retiring his debt under the variable payment plan is ahead or behind "schedule" on his payments of principal and interest, his payments shall be compared with what they would have been if he had paid 4.326 percent annually on his original debt. His loan shall not become delinquent because he is behind schedule, but it shall become delinquent when he fails at any time to pay the amount for which he is billed.

B. When a borrower operating under the variable payment plan is not ahead of schedule, the full amount of his net cash income shall be due and collectable each year.

C. When a borrower operating under the variable payment plan is ahead of schedule, the amounts of his annual payments of principal and interest shall be consistent with the following provisions:

1. When he has a good year and can readily pay considerably more than 4.326 percent, he shall pay at least three times his annual 4.326 percent instalment if his net cash income is sufficient and if the amount by which he is ahead of schedule would carry him over only one bad year during which no payment could be made. He shall pay at least twice his annual 4.326 percent instalment if his net cash income is sufficient and if the amount by which he is ahead of schedule would carry him over only two bad years during which no payment could be made. He shall pay at least his 4.326 percent instalment if his net cash income is sufficient and if the amount by which he is ahead of schedule would carry him over three bad years during which no payment could be made. If the amount by which he is ahead of schedule would carry him over more than three bad years during which no payment of principal and interest could be made, he shall be encouraged to further increase his margin of safety by applying some of his net cash income to the retirement of his debt but the amount of such payment should be left largely to the discretion of the borrower.

2. When he has a poor year and his net cash income is less than his 4.326 percent instalment, he should pay his full net cash income unless the amount by which he is ahead of schedule would carry him over three bad years during which no payments could be made.

IV. *Transfer to fixed annual basis:*

A. A borrower may transfer from the variable basis of payment to the fixed annual basis of payment on any date that principal and interest fall due, provided his payments of principal and interest are up to schedule on that date, and provided further, that he shall continue thereafter on the fixed annual basis until his debt is retired.

B. A borrower shall automatically be transferred from the variable basis of payment to the fixed annual basis of payment:

1. When it is determined by the FSA that he is not making satisfactory progress in retiring his debt under the variable payment plan. A borrower shall be deemed to be making unsatisfactory progress in the retirement of his debt under the variable plan when he becomes delinquent or when, for reasons not deemed by the FSA to be sufficient, he falls behind schedule 20 percent more than the average of all borrowers in his county for two or more years.

2. When it is determined by the FSA that his records are not sufficiently complete or accurate to arrive at his net cash income.

C. When a delinquent borrower is transferred from the variable payment to the fixed payment basis, his delinquent principal as of that date shall be added to the principal yet to be paid and an annual schedule of payments shall be calculated which will result in the retirement of both principal and interest (other than interest delinquent at the time of transfer), within 40 years from the date when the loan was obtained, and thereafter the borrower shall be billed for annual payments in conformance with that schedule. He shall be billed separately for the delinquent interest due as of the date of his transfer so as to avoid compounding such interest.

V. *Interest:* Annual instalments paid by borrowers operating under the variable payment plan shall be applied first on interest and thereafter to reduce the amount of the principal, and any amount of principal and interest remaining unpaid at the end of 40 years from the date the loan was obtained shall be due and payable at that time.

VI. *Fiscal year:* The borrower's fiscal year shall be the calendar year, except when the season's crops are marketed at a time to make some other year more advantageous. Immediately after the close of the year, the books shall be balanced, the net cash income arrived at, and a report submitted on which the borrower will be billed.

VII. *Net cash income:*

A. As long as the living and operating expenses are reasonably consistent with necessities in carrying out the approved farm and home-management plans, such expenses shall be allowed as an offset against gross income in determining net cash income. Net cash income available for payment on the debt for the TP loan shall be computed by subtracting allowable cash expenditures from total cash income. If, near the close of the borrower's fiscal year, he has on hand any crops, livestock, or livestock products not needed for successfully carrying out the farm and home management plan, and which should be disposed of, such crops, livestock, or livestock products shall be disposed of and the proceeds therefrom added to the cash receipts for the year.

B. In years in which the net cash income is sufficient to pay part but not all of the interest due, it shall be collected and applied on the interest due as far as it goes. The unpaid interest shall accrue to be paid as soon as the borrower's income permits, but there shall be no interest charged on delinquent interest.

VIII. *Controlled bank account:* Unless an exception is made by the regional director in his behalf, each borrower operating under the variable payment plan shall be required to deposit the landlord's share of receipts, or some other agreed amount, in a controlled bank account and to draw upon this account for the payment of interest, principal, taxes, and insurance as each falls due.

Amendment made to comply with board's suggestion.—It will be noted that the portion of the preceding instruction appearing under the heading "III. Ahead or behind schedule" contains a formula for determining whether a borrower shall pay out of his net cash income once, twice or three times the amount required to amortize his debt in 40 years. This precise formula was devised to overcome the criticism of the Farmers' Home Corporation Board that the original instructions "were couched in such general terms that controversies will arise between borrowers and supervisors as to the exact amounts that should be paid by borrowers who are ahead of schedule." The objectionable provision read as follows:

If a borrower operating under the variable payment plan has not gotten sufficiently ahead of schedule so that he has a margin of safety to his credit the full amount of his net income shall be due and collectable each year. On the other hand, if a borrower has been consistent in building up his advance payments and has a considerable margin above schedule to his credit, the determination of the amount of his net income to be applied to the further reduction of his debt shall be left largely to his discretion. In other words, the closeness of the check on the borrower's income and expenditures and the extent of the billings against his net income shall be in inverse ratio to his progress in getting ahead of his debt retirement schedule.

Viewing the matter in the light of experience it is doubtful if the change made at the Board's request was a wise one. The purpose was to relieve the county supervisor and the borrower from the necessity of exercising judgment in arriving at the amount of the borrower's net income that should be applied each year toward the retirement of his debt, yet judgment in this matter is precisely the thing that is called for. It is not a case in which the interests of the lender and the interests of the borrower are in conflict. Rather it is a case in which two parties, both interested in sound financing, with the facts and figures before them, consider all angles of the situation and arrive at a decision as to what should be done.

The very essence of the whole idea of variable payments based on net income is well expressed in the clause in the paragraph to which the Board objected reading "the closeness of the check on the borrower's income and expenditures and the extent of the billings against his net income shall be in inverse ratio to his progress in getting ahead of his debt retirement schedule." This statement permits a degree of flexibility which the mathematical calculations called for in the instruction as issued do not permit. The flexible provision would certainly be better if always well and wisely administered

and probably better as it would actually be applied by the field staff which necessarily includes some new employees with limited experience.

Disagreements between borrowers and supervisors over the payments to be made under the variable payment plan have been so infrequent as to be of no significance. It might be argued that they would have been more frequent if supervisors had always required adherence to thoroughly sound financial practices. Undoubtedly, supervisors have sometimes agreed to diversions of net income to other purposes than debt retirement when they should not have done so but the aim is to aid borrowers, not regiment them; and as will be seen in the discussion of results later in the chapter the record has been a very good one.

Other revisions of the variable payment plan.—Until the law itself was amended the changes made from time to time in the variable payment plan were in the nature of refinements designed to improve operating details. The fundamental idea of varying payments according to net income proved to be sound and no fundamental changes were necessary. Perhaps the most significant change was the withdrawal of the privilege of choice between the fixed and variable payment plans when a revision of FSA Instruction 658.1 was issued on June 5, 1941. As of June 30, 1941, 5,953 borrowers, exercising their right of choice, had adopted the fixed payment plan and 8,991 had adopted the variable payment plan.[2] The report of the Farm Ownership Division for the period from January 1 to June 30, 1941, contained the following reference to this change:

Under the original policy which left the borrower free to choose between the fixed and variable payment plan, it became apparent that many borrowers would resort to the variable payment plan only in time of trouble, thus preventing the system from working both ways. Experience also indicated that it was difficult to convey to the borrower through the supervisor, a correct understanding of the advantages of the variable payment plan. Accordingly, after 2 years of study and discussion, it was agreed that all new borrowers after July 1, 1941, should come in under the variable payment plan. Old borrowers who have elected the fixed payment plan are permitted to continue under it. Greater stress is to be placed upon getting ahead of schedule and less reliance upon precise formulas in achieving that end. The new policies are incorporated in FSA Instruction 658.1.

Consistent with the policy of requiring all new borrowers to start on the variable payment plan the privilege of voluntarily transferring from the variable basis to the fixed basis was denied to such borrowers after July 1, 1941. The following provision was also added to prevent abuse of the privilege of change by borrowers obtaining their loans prior to July 1, 1941:

A borrower whose loan was approved prior to July 1, 1941, may transfer from the fixed to the variable basis of payment or from the variable to the fixed basis of payment, on any date that principal and interest fall due, provided his payments of principal and interest are up to schedule on that date without borrowed funds having been used to make such payments, and provided further that a borrower who has once chosen the variable basis of

[2] Information contained in data found in letter dated June 3, 1948, from A. T. Mace, Chief, Program Analysis Section, to Paul V. Maris, Director, Farm Ownership Division.

payment and has elected to change to the fixed basis, shall not again be permitted to go on the variable payment plan without the personal written approval of the regional director. In passing upon such cases, the regional director shall be guided by the policy that borrowers shall not be permitted to shift back and forth intermittently at will.

The June 5, 1941, revision of FSA Instruction 658.1 also further amended the provision for determining the amount to be paid by a borrower ahead of schedule. It provided that:

a. He will ordinarily be required to build up a secure equity in his land by paying ahead of schedule as quickly as possible up to two times his annual fixed instalment. However, if his security and eventual success in repaying his TP loan would be enhanced by using a portion of his net cash income for operating capital, for investment in equipment and livestock, or for retirement of old debts, this may be permitted.

b. When the amount by which the borrower is ahead of schedule, or the amount which he can pay ahead of schedule in any year, becomes sufficient to carry him over more than two bad years during which no payment of principal and interest could be made, he shall be encouraged to further increase his margin of safety by applying additional amounts of his net cash income to the retirement of his debt, but the amount of such payment should be left largely to the discretion of the borrower.

On July 24, 1946, the statement on advance payments was further changed to read:

So long as the borrower maintains his account at least 2 years ahead of schedule, any additional repayment on principal when funds are available for that purpose will be discretionary with him. However, he should be encouraged to maintain and by degrees increase his margin of safety, but pressing ahead to pay off the full debt in a third or half the allotted time is to be encouraged only when this can be done without detriment to appropriate standards of living.

Each of the above revisions reflects a return toward the flexible provision to which the Farmers Home Corporation Board took exception in 1938 because it lacked definiteness and for that reason was thought, mistakenly, to open the way for controversies between supervisors and borrowers.

It is true that experience has demonstrated a need for definiteness, but this need cannot advisedly be met by arbitrarily requiring a borrower to pay the equivalent of 1, 2, or 3 annual instalments of principal and interest. An understanding of sound principles of money management perhaps expresses the need more precisely than the word definiteness. There is a need for some sort of guide to determine how the borrower's net cash income should be distributed as between building up operating capital, repayment of chattel debts, repayment of real-estate debts, and expanding operations through the purchase of livestock, tools, equipment, etc.

There is a strong tendency among borrowers to use surplus income to buy more tools, machinery, or equipment for the farm or the home. It is easy to understand this tendency since most human beings are motivated by it. A grain farmer, for example, feels that if he has a combine harvester he will be in much better position to operate his farm in future years. Similarly a dairyman feels that by investing in a milking machine he can reduce

his labor costs and increase his profits. Such illustrations could be multiplied manyfold. Sometimes capital investments of this sort are justified and should be made. Sometimes they involve risks that jeopardize the borrower's primary goal of achieving ownership of his farm. It then becomes a matter of gambling with the goose that is laying the golden egg.

It is also hard for a borrower to pay the principal and interest on his real-estate debt in January when he knows he will need money with which to make a crop in March or April. True, he may have been in the habit of operating on borrowed capital in the past, but he just hates to apply money in hand toward the payment of his real-estate debt and then turn around in a few weeks and borrow operating capital. However, if a borrower defers payment of his real estate debt payment until all other wants are satisfied a variable payment plan simply will not work. One often hears the statement that if American farmers had used their good incomes after World War I to pay off their farm mortgages rather than to buy high-priced automobiles or another quarter section of land there would have been fewer tragic farm foreclosures.

Formula for Distribution of Borrower's Net Cash Income

It is clear from the foregoing discussion that both farm-ownership borrowers and the supervisors of the Farmers Home Administration need principles to guide them in making wise decisions on these vital questions of money management. A start was made in formulating such principles as early as 1942. FHA Instruction 437.1 issued August 13, 1947, provides as follows:

The collection policy involves the whole question of wise use of income. The most important decisions in this connection will relate to determining how much of the borrower's net cash income should be used to pay debts, and how much should be used for such things as household furnishings, machinery, livestock, and cash-operating capital. Consideration should also be given to the question of how much of the income to apply to retiring chattel and other old debts and how much to apply to the farm-ownership debt in order to protect the Government's investment and at the same time keep the farm operating on a sound basis. Without some logical and easily understood principles to serve as a guide in making these decisions, mistakes will be made which will be detrimental to the interests of both the borrower and the Government. These guiding principles should be understood and observed by every Farmers Home Administration employee who deals with borrowers relative to collection matters. They are not substitutes for judgment and must be applied with discretion. They are affected by the payment plan under which the borrower is operating. Subject to the above conditions, the cash income should be used as follows:

I. To pay farm operating and family living expenses, including current operating debts. These should be kept in reasonable control by conformance to approved farm and home plans.

II. The next priority for the use of cash income is:

A. To pay an amount on chattel debts equal to the annual depreciation of the chattels. If the amount due on chattel debts is less than the estimated amount of chattel depreciation, an expenditure may be allowed for new chattels, if needed, in an amount sufficient to make the combined

outlay for old debts and new chattels roughly equivalent to chattel depreciation.

B. To pay the scheduled annual instalment of principal and interest on his farm-ownership debt, or to bring the borrower up to schedule when he is behind schedule on such debt.

III. The remaining income should be used for the following purpose depending on the circumstances of the individual case.

A. To get the borrower ahead of schedule on his farm-ownership debt. The aim will be to work toward getting and maintaining the farm-ownership debt ahead of schedule by larger payments in good years.

B. To speed up retirement of the chattel or other old debts.

C. To build up cash-operating capital so that less money will have to be borrowed for this purpose.

D. To make capital investments that will result in sound and justifiable expansion of operations and improve living conditions.

Other considerations

A. Family living and farm operating debts incurred to finance annual operations normally should be repaid each year. If because of crop failure, or other unanticipated developments, funds are not available to pay such debts out of the year's income, they should be given priority of payment the following year as old debts.

B. If an operating debt is incurred for production which will not be realized until the following year, is not scheduled for payment until that time and it is carried over as an old debt to be paid the following year when production is realized, it should have the same priority for payment, when due, as other farm-operating debts for the year.

C. If some foundation or feeder livestock or capital goods have been sold, a compensating amount will be allowed, first for the repayment of any debts secured by the chattels and second for the purchase of livestock or additional capital goods.

D. Consideration should be given to the amount of income allowed for capital goods purchases and also for net debt repayment in previous years. The allowance for the purchase of capital goods and for net debt repayment combined should be sufficient on the average to replace the capital goods. The amount may vary from year to year so long as the investments for replacements plus net debt repayments tend to equal depreciation over a period of years. In good years when the net income is large, it is reasonable to allow a larger amount than during poor years when the net income is small.

Decision to Attempt Court Action to Enforce Variable Payment Agreement Under Certain Circumstances

On April 19, 1944, the Director of the Farm Ownership Division submitted the following memorandum to the Administrator of the Farm Security Administration:

In conformance with conclusions arrived at after communicating with representatives of the FO staff in the field and consulting with members of the FO staff here, I recommend that we discontinue transferring a variable payment FO borrower to the fixed-payment basis when it is determined by the regional director that such borrower is not making satisfactory progress in retiring his debt under the variable payment plan.

Your attention is directed to the marked portions of FSA Instruction 658.1 which is attached to this memorandum.[3] The present policy is clearly set forth in the marked paragraphs. I shall present briefly in this memorandum the reason why the present policy was adopted some years ago and the reasons why it now appears desirable to make a change.

The principal reason for adopting the policy of transferring a variable payment borrower to the fixed-payment basis was that we did not deem it wise to institute court action and attempt to carry through foreclosure proceedings under circumstances that would compel us to explain the variable payment plan before a judge or a jury. I think that there was ample justification for this point of view at the time the policy was formulated. At that time, although the plan was based upon legal authority, we lacked convincing evidence that it was feasible or practical. Our close advisers on the Solicitor's staff concurred in this view and they supported our proposal of transferring a borrower from the variable to the fixed basis before going into court.

We now have more than 25,000 borrowers operating successfully under the variable payment plan. When the records are all in this year we assume that fewer than 25 percent of the variable payment borrowers will be behind schedule. An inconsequential percent will be delinquent. Those who are delinquent will have failed to make the payment which our field representatives have asked them to make after taking into account all adverse circumstances.

In view of these facts we are now willing to go to court, when necessary, in foreclosure proceedings against a delinquent variable payment borrower.

The difficulty with the present policy is that it prolongs unduly the process of corrective action. For example, if John Brown were billed to pay $250 out of his 1943 income and failed to do so, our recourse is to advise him that the privileges of the variable payment are being withdrawn and that on December 31 next he will be obliged to pay a fixed annual instalment plus a stated portion of his delinquent interest. Legal action must be deferred until borrower Brown fails to comply with his new payment schedule.

There are instances, however, in which it appears desirable to proceed immediately with foreclosure action or to indicate that such action will be necessary if certain conditions are not met. One of these conditions might be making a larger payment at the end of the year than the fixed amount required to amortize his debt within 40 years from the date of the original loan. Approval of this recommendation will permit us to take such action.

Consistent with the foregoing recommendation, section V of the variable payment agreement issued January 24, 1946, contained the following provisions:

Cancellation of agreement.—If the Government finds that the borrower has failed to comply with the provisions . . . of this agreement; or that he is

[3] The marked portion of 658.1 referred to above reads as follows: "A borrower shall automatically be transferred from the variable basis of payment to the fixed annual basis of payment:

"A. When it is determined by the regional director that the borrower is not making satisfactory progress in retiring his debt under the variable payment plan. A borrower shall be deemed to be making unsatisfactory progress in the retirement of his debt under the variable plan when he becomes delinquent or when, for reasons not deemed by the regional director to be sufficient, his actual payments as compared with his scheduled payments are 20 percent less than the average of all borrowers in his county for two or more consecutive years."

not making satisfactory progress in retiring his debt; or, if the Government shall, for any other reason, determine that the variable payment plan herein provided should be discontinued, it may, at its option in writing . . . declare this agreement null and void and the entire indebtedness due and payable in accordance with the terms of the original note, in the same manner as if this agreement had not been executed.

The change in instruction 658.1 and corresponding change in the variable payment agreement had two results. First, the arbitrary formula for determining whether progress had been satisfactory was eliminated and second, action by the regional director was made permissive rather than mandatory. This policy is still in effect (February 1950). As a matter of fact, no court action has yet been brought against a variable payment borrower because of delinquency in his principal and interest payments. The Farmers Home Administration stands ready to institute such action when justified by circumstances in individual cases, including cases of variable payment borrowers who are ahead of schedule but who fail to make the payments for which they are billed.

How the Variable Payment Plan Has Worked

"The test of the pudding is in the eating." How has the variable payment plan based on net cash income worked during the years that it has been in operation? The answer is, it has worked well. The years in question have been good years for farmers. All things considered they have doubtless been the best years in the history of American agriculture in which to buy and pay for farms. For this very reason it is often contended that what has happened in this decade of good crops, ready markets, and high prices is not typical. Nor is it indicative of what may be anticipated during a period of adversity.

But it is good times rather than bad times which subject a variable payment plan to its most crucial test. There can be no reasonable doubt, come loan years, that borrowers will be happy indeed to be permitted to curtail their principal and interest payments. The real question is whether borrowers can be induced to build up substantial prepayments in good years. For the answer to this question let us consider the record.

As of March 31, 1948,[4] 36,711 variable payment borrowers had obtained loans on which one or more payments of principal and interest had become due. Of that number 10,087 had repaid the entire amount of their indebtedness. At the time of final payment 6,642 of these were continuing to live on and operate their farms. Since their loan contracts, all entered into after January 1938, covered terms of 40 years and since none of the debts had been outstanding more than 9 years it follows that all of this group of variable payment borrowers were at least 31 years ahead of schedule. Some of them made their final payments within 4 or 5 years from the dates their loans were obtained. They were, therefore, 35 or 36 years ahead of schedule.

Active variable payment borrowers numbering 19,945 made payments ahead of schedule in the amount of $20,169,040 or an average of $1,011 [5]

[4] Annual Report Farm Ownership Borrowers Status of Accounts, March 31, 1948.
[5] All classes of farm-ownership borrowers.

per borrower. This is the equivalent of three annual instalments of principal and interest for a borrower with a loan of average size. The status report for all active tenant-purchase borrowers as of March 31, 1948 indicated that 19.5 percent were from four to seven payments ahead; 21.8 percent were from 2 to 3 years ahead; 19.9 percent were 1 year ahead; and 19.4 percent were less than 6 months ahead.

Two thousand four hundred and twenty-seven (9.1 percent) of all variable payment borrowers excluding those who had paid in full were exactly on schedule; 4,252 (16.0 percent) were behind schedule in the amount of $1,336,226, an average of $314 per borrower. Of these borrowers 79.1 percent were behind 1 year or less and 20.9 percent were behind two or more years.

The foregoing figures do not include unused loan funds turned back by borrowers. It often happens that small balances are left over in a borrower's loan account because of the impossibility of estimating the exact costs of various buildings or improvements. These balances are applied to the borrowers' accounts as they are received but they are not accepted in lieu of the regular principal and interest payments nor do they count in getting a borrower ahead of schedule.

Variable payment borrowers, had as of March 31, 1948, made extra payments in the amount of $22,619,487. Of this amount $3,770,883 was paid by active borrowers and $18,848,595 by borrowers who had paid their debts in full. The extra payments of the active variable payment borrowers were derived from the sale of timber, minerals, rights-of-way, or portions of the property pledged to the Government as security for the farm-ownership loan. Like loan refunds, extra payments were credited to the borrowers loan accounts but were not accepted in lieu of annual payments of principal and interest, and they have not been included in computing amounts by which borrowers are ahead of schedule.

There is yet another factor to be taken into account in considering the repayment record of Farm Ownership borrowers, namely, their non-real-estate debts. Obviously, there is no virtue in a good record with respect to repaying a real-estate debt if it has been accomplished by building up a big chattel debt. A borrower, who resorts to this practice, is merely "robbing Peter to pay Paul."

As of December 31, 1947, out of a total of 34,536 active Farm Ownership borrowers, 13,295 had received non-real-estate loans from the Farmers Home Administration with unpaid balances totaling $26,839,615. They had repaid $13,664,730 of principal and $2,462,119 of interest. Delinquencies totaled $2,940,324.[6] Prepayments totaled $589,100.[6] The amount by which variable payment borrowers were delinquent in their non-real-estate debt payments is certainly not creditable. It is not probable, however, that this is associated with what is referred to above as "robbing Peter to pay Paul." On the contrary, the prevailing tendency has been to pay off the 5 percent chattel and operating debts before paying the 3 percent farm-ownership debt. Probably the 16 percent of all borrowers who are

[6] Delinquencies and prepayments for nine Southern States is reported as of December 31, 1946.

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behind schedule on their real-estate debts are often the identical borrowers who are behind on their chattel debts. In other words, they are the stragglers in the procession. They are not making what could be regarded as satisfactory progress.

However, there is another element in the picture as it relates to chattel and operating debts and that is the 5-year limit on farm-ownership chattel and operating loans. While this 5-year limit was established to overcome an unwholesome tendency on the part of some borrowers to "stay on the Government" and may have been justified as a corrective measure it is nevertheless, unrealistic so far as some loans are concerned. A loan for the purchase of good dairy cows will illustrate the point. A good dairy herd is self-perpetuating. It ought to be worth as much or more as security for a loan at the end of 5 years as it was at the beginning. A chattel loan for the purchase of dairy cows, therefore, may well be spread over a longer time than 5 years. When it is a 5-year loan so much of the income is required to pay off the loan made for the purchase of the cows that the borrower has difficulty in meeting other obligations. He sometimes fails to pay the chattel debt on the definite assumption that he will extend it or refinance it.

Problems Involved in Administering the Variable Payment Plan

The major problems involved in administering the variable payment plan based on net cash income are listed below:

1. *Lack of understanding.*—Lack of understanding is placed first because it has been most important. It has diminished in relative importance with the passing of years and is no longer the major consideration, but during the period when the variable payment plan was being initiated, when borrowers were free to choose between the variable and the fixed-payment plans, when the Management Division of the Farm Security Administration sponsored a different kind of variable payment plan misunderstanding was prevalent at all levels of the organization.

Fortunately, State and county committee members were quick to recognize the merits and workability of the net cash income variable payment system. They had borrowed money. They knew what it meant to put interest and principal payments "on the barrel head" when notes fell due regardless of crops grown, prices received or other circumstances. As indicated earlier in the chapter, authorities in the field of farm management were also quick to recognize the soundness and merits of the plan. Save for these two supporting groups, it is doubtful if the plan would ever have been accorded an opportunity to demonstrate its worth.

Divisional letter No. 17 sent to the field November 27, 1941, was devoted entirely to the subject "Don't Worry About TP 14." TP 14 was the number of the blank used in the field for summarizing the borrower's business and determining what his principal and interest payments should be. The letter, prepared by the author, read as follows:

This admonition "Don't Worry About TP 14," is addressed primarily to farm and home supervisors who will soon face the task of using this device to determine the net cash income of all TP borrowers. You are advised not to worry because there is no occasion to worry. There is nothing about the

job that you can't do well, if you apply rule No. 1, which is "Use common sense."

The proposition of paying more in a good year and less in a bad year is so simple that it can be readily understood by everyone. The variable payment plan is just that simple. It would be possible to talk the matter over at the end of the year with a borrower below the TP grade who could neither read, nor write, nor keep a record of any kind, and in the course of a single interview fill out a TP 14 for him that would determine with reasonable accuracy what his billing should be. Such folks often have memories that put to shame the memories of those accustomed to rely upon records. But even if they do not, you can get in one interview reasonably accurate information as to what the income and expenses of the borrower have been. If it has been, in general, an average year, you can safely make an average or "schedule" billing. If the income is better than usual and there have been no adverse conditions, such as sickness, accidents, loss of livestock, etc., you would naturally bill for more than schedule. If crops failed, wholly or in part, or if there were unusual expenses resulting from fire, flood, sickness, accident, etc., you would naturally render a small bill or none at all.

This letter is to point out that the job could be done that way if necessary. In general, with TP borrowers it isn't necessary. They do have and should have record of income and expenses. Also there are rules about filling out TP 14. You should know them and they should help you. But don't let them confuse you. It is the spirit of the thing that counts. It is hard to get borrowers to pay debts according to their ability, but that is because human nature is what it is, not because TP 14 or the variable payment plan based on net cash income determined at the end of the year is hard to understand.

Do a good job, yes. But approach it with confidence. Read the statement on "How to Pay for a Farm Where Others Have Failed." Advance the line of reasoning contained in that statement in your talks with borrowers. As a result, billing should be well done. Collections should be good. There should be no cause for worry.

2. *Reluctance to break with tradition.*—Sheer reluctance to break with tradition contributed substantially to the difficulty of introducing the variable payment system. Particularly in the cotton growing area tenants and share croppers are accustomed to paying land rentals with varying percentages of the cotton and corn crops. Share renting is also common in other sections of the country. It has not been used extensively in any part of the country in determining principal and interest payments on farm purchase loans.

Some field representatives in important administrative positions preferred to combine the share-of-the-crop system with the farm ownership variable payment system. Combining it with the net income variable payment system really amounted to substituting it for the net income system. Payments based on share-of-the-crop were easy to teach and administer because many of the farm-ownership borrowers had formerly been tenants or share croppers and they were accustomed to the share-of-the-crop system. Some supervisors took to it readily because it relieved them of the necessity of a careful analysis of the borrower's business and made less demand upon their judgment.

Share-of-the-crop, however, is not a true measure of a borrower's ability to pay. In certain years his paying ability may be zero. In other years it may be very great. The variable payment plan, administered according to the formula for distributing income previously explained, is much more beneficial than a variable payment plan based on a share of the crop. The two ideas conceivably might be combined in some measure if share-of-the-crop payments were made in a preliminary way and adjusted upward or downward at the end of the year when the records are complete. The withholding feature of the Federal income tax operates in this way. When the year is over each Federal taxpayer submits an income-tax return. If the Government has withheld too much the taxpayer receives a refund. If the Government has not withheld the full amount of the tax the taxpayer makes up the shortage. Experience suggests that very few of the advocates of combining the share-of-the-crop system with the net income system would, if given free rein, operate them together in this unobjectionable fashion. They would merely collect the proceeds from a share of the crop and let it go at that.

3. *Satisfying long deferred wants.*—This administrative problem springs from very deep-seated but very human motives. Many farm-ownership borrowers have been compelled by virtue of limited means to forego most of the comforts and conveniences of our day and age, and often some of the necessities. The meager supply of furniture and household goods accumulated by tenants and share croppers who have moved often from place to place seems woefully inadequate in a new tenant-purchase home, modest as it is, in comparison with the residences of great majority of American families. There is a strong temptation under such circumstances to buy linoleum for the floors, a better stove for the kitchen and living room, a sofa, a radio, and a few chairs. The writer recalls a conversation he once had with the wife of a tenant-purchase borrower when the year's records were being reviewed and a decision made with respect to the payment of principal and interest on the borrower's debt. This family was not going to be able to make a payment equal to 4.326 percent of their debt. They faced the necessity of getting behind schedule. They had purchased a piano not contemplated in the farm and home plan in order that the oldest daughter might take music lessons. The mother indicated that one of the reasons why they wanted a farm of their own was so that they could do these things for their children. It was a praiseworthy motive but it had led in this case to the commitment of a financial indiscretion.

On another occasion the writer sat before the fireplace in the reception room on the grounds of a branch experiment station with a small group of farm-ownership borrowers and their wives attending an annual borrowers' meeting. It was a cold, raw day outside. After the meeting had been in progress for an hour or more an excellent potluck dinner was served. The restraints and inhibitions which sometimes prevent people from expressing themselves freely were pretty well broken down. Under these circumstances the wives of the borrowers present stated quite frankly that they had chosen the fixed payment plan rather than the variable plan because they wanted to be free to use every cent above the minimum necessary debt payments for

the purchase of badly needed clothes and other things for the home. No one can fail to sympathize with such purposes as these. The difficulty is that if eagerness to have better things leads to their purchase before the borrower can really afford them he is all too likely to find himself doomed to drop back into the tenant or share-cropper class where the handicaps of poverty will be still harder to overcome.

The farm and home plan makes provision for the purchase of such household goods and furnishings and such farm machinery, tools and equipment as it appears safe and wise to purchase. Had the borrowers' wives who favored the fixed payment plan because they wanted things badly needed for the home taken the long-range view, they would have realized that the best way to satisfy their wants for some of the better things of life was to build up a margin of safety under the variable payment plan and not flirt with the possibilities of farm foreclosure by skating too freely on thin financial ice.

4. *Inclination to pay first the debt that bears the highest interest rate.*—Until the Bankhead-Jones Farm Tenant Act was amended in 1946 the interest rate on the farm-ownership loans was 3 percent and on the production loan 5 percent. This in the minds of many borrowers and supervisors overshadowed all other considerations. They attached more importance to the difference in interest rate than the situation warranted. On a $500 debt a borrower would pay $10 more a year at the production-loan rate than at the farm-ownership rate. For such a minor saving as this it is not good business to withhold the payment of a reasonable amount on the farm debt in order to make haste in paying off a chattel debt. FHA's income distribution formula provides that annual operating loans and scheduled instalments on chattel debts shall be paid ahead of the real-estate debt. It is the borrower who chooses to go beyond this point and make overpayments on chattel or operating loans before he makes a reasonable payment on his real-estate debt who is violating principles of sound financing.

5. *Willingness to accept benefits—reluctance to assume obligations.*—This point requires very little elaboration. There are, of course, some persons who are eager to accept the privilege of making small payments in bad years, but unwilling to obligate themselves to pay according to their ability in good years. This is not indicative of a spirit likely to carry its possessors on to the goal of farm ownership and fortunately there are not many borrowers animated by such a spirit. One of the important obligations resting upon variable payment borrowers is to keep living and operating expenses reasonably consistent with necessities in carrying out approved farm- and home-management plans. Certainly if borrowers indulge in extravagances and reckless expenditures there will be no net income to apply toward the retirement of their farm-purchase debt. Adherence to a sound plan of operation and sound money management practices are essential to the success of a variable payment plan based on net income.

6. *Belief by fixed-payment borrowers that Government will deal leniently with them if they fail to meet their principal and interest payment.*—It is, of course, apparent that a policy of leniency on the part of the Federal

Government toward fixed-payment borrowers who fail to meet their principal and interest payments amounts to a one-sided variable payment plan. Under such a policy a borrower would be justified in making the smallest payments on his farm debt he can get by with knowing that if he should be unable to meet his principal and interest payments at any time he would be in no danger of losing his farm. In a letter addressed to the Administrator on October 27, 1939, the director of the division asked "How much leniency shall be accorded to delinquent borrowers who fail to take advantage of the variable payment provision? . . . Our long time collection record will be very much affected by our answer to this question . . . Stating the issue briefly there are a good many borrowers who are anticipating leniency on our part in the event that they fail to make payments under the fixed-payment plan. They prefer to go along on the fixed-payment plan presuming upon this leniency rather than adopt the variable payment plan under which they will be obliged to make large payments in good years and little or no payments in bad years . . . Viewing the matter from the standpoint of the welfare of the borrowers in the long run, it is my recommendation that we pursue a firm policy from the outset with respect to delinquencies on fixed-payment borrowers. If it develops that the borrower has not been properly advised by the supervisor our duty in that instance is to put the supervisor in line."

The minutes of the board meeting of November 1, 1939, contained the following statement: "The two members of the Board (Harry L. Brown, Chairman and Dr. Albert G. Black, Director of Marketing and Regulatory Work) concurred with Dr. Alexander in his judgment that a firm policy with respect to collection should be pursued at the outset, holding that the opportunity to elect the variable payment plan obviated the necessity for delinquency on the part of borrowers really desirous of meeting their payment schedule."

Despite a policy of firmness in dealing with delinquency among fixed-payment borrowers a considerable volume of delinquency has accumulated. Two factors have contributed to this situation. The first is that there has not been complete adherence to the policy of firmness by all field personnel. The second is that a borrower who is disposed to do so can transgress to a minor degree and get away with it for a time. This is because the Federal Government cannot rush into court and take what may be made to appear to be hasty or arbitrary action. It can only proceed with likelihood of success when it has a strong, well-supported case. Despite this fact, there is almost certain to be a day of reckoning for the borrower who presumes too greatly upon the restraints and responsibilities of public officials. Certainly when a borrower, finding himself in financial difficulty, can solve his problem by entering into a variable payment agreement he can expect very little leniency in time of trouble if he refuses to do so.

7. *Belief that the variable payment plan borrowers will have to keep records whereas fixed-payment borrowers will not.*—This opinion is unfounded. The fixed-payment borrower is under the same obligation to keep records and to submit an annual-income return as is the variable pay-

ment borrower. Those who chose the fixed-payment plan for this reason were, therefore, improperly advised.

8. *Tendency to work the plan backward.*—This expression has been used to describe a situation in which a supervisor first finds out how much money a borrower has to apply on his debt or how much he desires to apply on it and then juggles the figures on the borrower's annual-income return so he will be asked to pay just that amount. This is, of course, a dishonest and discreditable practice whether the supervisor and borrower fully realize it or not. It is difficult to understand how such a practice could be engaged in without a full awareness of its unsavory implications. Yet there have been county supervisors who have applied the collection formula in such a manner that all the borrowers in his county are billed year after year to pay exactly "schedule" (4.326 percent of their loan). The mathematical probability of such an outcome is remote indeed. In the course of an address delivered before a regional conference of Farm Security Administration employees in Omaha, Nebr., on September 6, 1940, the Director of the Tenant Purchase Division said: "The most serious thing about this ('doctoring the record') is that, reduced to its simplest terms, it is a case of federally conducted education of private citizens in practices of dishonesty in financial transactions." It should not be inferred from this vigorous denunciation of failure to observe integrity in operating variable payment plan that the collection formula is a thing to be applied with mathematical exactness. Quite on the contrary, it is expected that judgment shall enter into the determinations, but a supervisor who always finds that his borrowers should pay schedule is neglecting to use judgment.

9. *Normal resistance to disciplines.*—This is somewhat intangible and immeasurable, but nevertheless important. Operating the variable payment plan successfully involves starting with carefully developed farm- and home-management plans and budgets of anticipated income and expenditures. It involves keeping records of actual income and expenditures. It involves an intelligent analysis of the books of account at the end of the year followed by still more planning and budgeting for the next year. To do all these things and do them well requires thoroughness and systematically applied effort. Furthermore, the records tend to reveal whether plans have been wisely made and consistently observed.

We are all prone to shun such exacting requirements as the foregoing, however fully we may realize that they are for our own good and an unavoidable part of the price of success in any legitimate field of endeavor.

In reality this tendency to resist disciplines is not related particularly to the administration of the variable payment plan. It would enter to some degree at least into any system involving the efforts of people of limited means to become owners of farms. It always has and doubtless always will require a substantial measure of effort, sacrifice, and good business management to pay for a farm out of the earnings from that farm.

Change in Law Compelled Change From a Variable-Payment Plan to a Prepayment Plan

When the Bankhead-Jones Farm Tenant Act was amended in 1946, section 48 relating to variable payments was changed so fundamentally that it

became necessary to make major changes in the variable payment plan. In fact, the payment plan authorized by the amended act can be more properly described as a prepayment reserve plan than as a variable payment plan. The variable payment section of the original act is quoted on page 371. The section as revised reads as follows:

. . . The Secretary shall provide a method whereby a borrower may pay any obligation or indebtedness by a system of variable payments under which a surplus above the required instalment for any year may be paid in periods of above-normal income and employed to reduce payments below the required annual payment in subsequent periods of subnormal income. Any advance payments to the Secretary shall not affect the obligation to pay the required annual instalment during periods of normal or above-normal income.

In a report on H. R. 4384, which was one of the earlier versions of the bill which finally developed into the Farmers Home Administration Act of 1946, Secretary of Agriculture Claude R. Wickard and War Food Administrator Marvin Jones joined in recommending a number of revisions proposed by the Farm Security Administration and the Office of the Solicitor.[7] Among them was the following wording of the variable payment provision:

. . . provided, however, that the Corporation may provide for the payment of any obligation or indebtedness by a system of variable payments under which a larger payment than the amount called for in the amortization schedule may be required in any year when net earnings are above normal due to above-normal production or prices and less than the amount called for in the amortization schedule may be required in any year when net earnings fall below normal because of below-normal production or prices, or other adverse circumstances beyond the control of the borrower.

The reasons why the wording proposed by the Secretary of Agriculture and the War Food Administrator was preferred to that contained in H. R. 4384 and in the act as passed is revealed by the following memorandum prepared by the Director of the Farm Ownership Division on April 26, 1944:

STATEMENT ON VARIABLE PAYMENT

1. Section 47, page 3 of H. R. 4384 (this became sec. 48 of the bill as passed) permits "below the required annual payment" only when a borrower has built up a reserve by paying "a surplus above the required instalment."
2. Our present variable payment contract, under which more than 25,000 borrowers are operating, permits paying more than schedule in good years and less than schedule in bad years regardless of whether the borrower has built up a reserve.
3. The privilege of paying less than the amount called for in the amortization schedule is likely to be most needed in the early years of a loan, before a borrower has had a chance to build up a credit reserve. This privilege may also be needed by borrowers who have had loans for many years but who do not have credit reserves built up.

[7] Letter from Secretary of Agriculture and War Food Administrator to Hon. H. P. Fulmer, Chairman, Committee on Agriculture, House of Representatives, dated May 3, 1944, and attachment thereto.

4. The provision that "any advance payments to the Corporation shall not affect the obligation to pay the required annual installment during periods of normal or above-normal income" kills the incentive for "getting ahead of schedule." Borrowers like to look forward to the time when they will be so far ahead of schedule that they can use their earnings as they choose. We can reason that a borrower should never get so far ahead of schedule but that he should pay at least the amount called for in the amortization schedule in a good year. Farmers simply do not feel that way about it and we cannot legislate them into doing so. They subscribe to the principle that *paying more* some years carries with it the offsetting privilege of *paying less* in other years.

5. The example set by the Government on this point has a great influence on credit policy. Changing from the present net cash income basis to the more restricted policy authorized in section 47 of H. R. 4384 is a step backward. It does not appear to be either necessary or desirable from the standpoint of the Government or from the standpoint of the borrower.

6. The language proposed in the attached draft uses the expression "The Corporation may provide" rather than the expression "The Corporation shall provide." The permissive rather than the mandatory language is more appropriate because we should not be required to adopt a variable payment contract with rehabilitation borrowers. We have yet to demonstrate that we can develop a variable payment contract for rehabilitation borrowers that is administratively practical. This, of course, does not mean that it cannot be done but the requirement that it shall be done appears unwise.

7. Section 47 in H. R. 4384 is inconsistent in that it says "shall require annual payments in equal instalments" and also says that payments may vary. It is also inconsistent to refer to a *required instalment* which, in fact, is not *required*. If it is possible to pay more or less than the stated amount then that amount ceases to be *required*. The expression more or less than "the amount called for in the amortization schedule" is a much more accurate expression.

Under a weak and inefficient administration, there are advantages in legal limits upon the extent of variability permitted. Under an efficient and capable administration, a more flexible arrangement, such as we now have, will work out better for both the creditor and the borrower.

The above statement requires no elaboration. It expresses the considered views of the author and the staff of the Farm Ownership Division with respect to the superiority of a true variable payment system over a prepayment reserve system. Experience since 1944 tends further to confirm the conviction that it is both safe and desirable to permit a borrower to pay less than an annual instalment in years when income is normal or above if he is already substantially ahead of schedule. It is good years which subject this last point to the vital test. We have had such good years, and, as the record proves very substantial reserves have been built up by the great majority of variable payment borrowers notwithstanding the fact that they have been under no compulsion to pay stated amounts.

As a matter of consolidating gains in the field of farm-mortgage credit made during a 10-year trial period it is hoped that legal authority will ultimately be given to reestablish the variable payment system in effect prior to the amendment of the act in 1946.

Method of Determining Whether a Borrower's Income Has Been Below Normal, Normal, or Above Normal

Under the act as amended it became necessary to devise a simple, easily administered method of determining with respect to each borrower each year whether his income for that year is below normal, normal, or above normal. FSA Instruction 437.1 issued August 13, 1947, provides that "Income will be considered 'normal or above normal' when it is sufficient to meet at least one scheduled payment (of principal and interest) as well as reasonable farm operating expenses, normal capital replacements, and usual family living expenses kept within reasonable conformance with the farm and home plan." The justification for such a determination lies in the fact that each borrower's loan is approved on the assumption that if a normal income is obtained each year he will be able to meet family living and farm-operating expenses and pay the amount required to amortize his debt in 40 years. The yardstick used for determining the soundness of a loan before it is made appears to be the best yardstick for determining yearly deviations from normal conditions. When income for any year is insufficient to meet normal outlays that income is considered to be below normal.

Use of a Variable Payment System by Private Farm Mortgage Lenders

The significance of a system of variable payments depends in part upon the extent to which it may ultimately be adopted by private farm mortgage lenders and incorporated into our general system of farm mortgage credit. A 10-year trial appears to warrant the conclusion that the system of complete variable payments based on net income has worked well with the borrowers of the Farmers Home Administration who keep records of income and expenditures and operate under supervision. Would it work in the case of private lenders who are unable to provide supervision and borrowers who might not keep systematic records? The prepayment reserve system is used by the farm mortgage loan department of at least one of the large life-insurance companies. This, as the previous discussion indicates, falls substantially short of being a completely variable system.

The writer believes that a completely variable system would work satisfactorily if both borrower and lender were committed to it and willing to cooperate in carrying it out. A single interview at the end of the year in the lender's place of business or on the farm of the borrower should divulge enough information as to yields, prices, costs, outlay for maintenance, depreciation offset, and unusual circumstances to permit a fair and reasonable determination as to whether the borrower should pay the exact amount required to amortize his debt within the agreed time or whether he should pay more or less than that amount.

An inventory at the beginning of the year, another at the end and a record of income and expenditures during the year would facilitate the operation of the system. It is good business for a number of reasons to keep such records anyway. But they are not essential to a practical application of the variable payment principle. There are good years and bad years and years that are neither distinctly good nor bad and it is not too difficult to tell at the end of a year which kind it has been. With the aid of sales slips

evidencing the important sales and receipts evidencing the major expenditures, an annual income return form can be executed which will summarize the facts in understandable fashion so that a fair decision can be made with respect to principal and interest payments even when complete records are not kept. The opinion here expressed is predicated upon two assumptions: First, that the lender holds adequate security for his loan, and second, that the borrower really wants to get on with the business of paying for his farm. Presumably, these conditions characterize most farm mortgage loans. That being the case it is advantageous to both borrower and lender to work along together on a fair and reasonable give-and-take basis. Of course, it is quite common practice to do just that, but it usually is done as a matter of concession by the lender after the borrower has clearly run into rather serious difficulty. It would appear that it might better be done as a mutual proposition agreed to in advance, not dependent upon financial crises or embarrassing concessions by either party to the transaction.

Chapter XII

LEGAL AND TECHNICAL ASPECTS OF MAKING AND SERVICING FARM OWNERSHIP LOANS

This chapter deals with important legal and technical aspects of making and servicing farm-ownership loans which have not been adequately discussed in other chapters. Persons interested in more detailed information about the routine operation of the farm-ownership program than they find presented in this and other chapters should communicate with the Farmers Home Administration.

Obtaining Good Titles to Farms Which Secure Farm-Ownership Loans

If precautionary measures are not taken flaws in a real-estate title may cause a farm-ownership borrower to lose possession of a farm for which he has paid in full or in part and may impair or make valueless the Government's security. Thus, an invalid title may harm both the borrower and the lender. This does not happen often, but when it does happen it can be serious. The Farmers Home Administration does not maintain a record of title suits filed or of claims settled by title insurance companies, but it is known that there have been enough such cases to justify the practice of insuring titles.

There are two methods by which both the borrower and the lender may be protected against losses arising from title defects. They may be protected by a policy insuring the validity of the title or they may be protected by an examination of title. If, in the course of a title examination, title defects which cannot be corrected are discovered, the loan will not be made. If, however, in the opinion of a representative of the Solicitor of the Department of Agriculture the title can be made good, the loan may be made and the farm purchased when the defect has been corrected.

The Farmers Home Administration requires that titles be insured when insurance is available from an approved title insurance company. There are two reasons for this requirement. In the first place, the protection provided by a title insurance policy is complete and absolute within the limits of the solvency of the company issuing it. In the second place, it is the practice of the title insurance companies to have competent representatives participate in closing loans when they insure titles to farms purchased with the proceeds of such loans. The purpose of the insurance company in so doing is to see that all details related to the transfer of title to the new purchaser are properly handled and recorded. The title company representatives are specialists in this field. The steps which they take to protect the interest of the insurance company also protect the interest of the

borrower and the lender. Furthermore, the company representative attends to correcting certain minor title defects. Therefore, helpful service as well as protection is obtained in return for the premium paid.

The title insurance company may issue a policy which insures both the borrower and the lender against loss through title defects or it may issue a policy which insures only the lender or mortgagee. The additional charge made for insuring the owner as well as the mortgage holder is so small that an owner cannot wisely fail to pay it and obtain the protection which the insurance gives him. An example will illustrate why this is true.

Let us assume that a borrower obtains a loan of $10,000 with which he purchases and improves a farm which has been the property of an estate. Four or five years later, one of the heirs to the estate institutes a suit and obtains a judgment in some amount, let us say of $1,000, because he was not properly paid for his interests in the property. If both the borrower and the lender were covered by title insurance policy, it would be the responsibility of the title insurance company to pay the amount of the judgment. If only the lender or mortgagee were insured, the title insurance company would pay the claim for the time being. After the owner had paid off the mortgage, the company might proceed against him and recover the $1,000 from him.

When the farm-ownership program was inaugurated in 1937, there were a good many States in which title insurance on farm properties could not be obtained from an approved title insurance company. In all such cases, the vendors or sellers were required to furnish abstracts of title which were examined by competent title authorities who prepared opinions on them. These opinions were examined and passed upon by a member of the staff of the Solicitor of the Department of Agriculture. There has, however, been a very rapid expansion of farm title insurance operations. While title insurance policies are not obtainable in a few locations, notably in New England States, they are available in practically all other States and counties. Generally speaking, therefore, title insurance is now obtained in connection with each farm-ownership loan.

The cost of title insurance is borne jointly by the seller and buyer of the farm. The seller pays for insuring the title up to the amount of the selling price of the farm. In other words, he agrees to insure the title to what he sells. The borrower pays the additional charge occasioned by the fact that he as owner is insured against loss because of bad title. He also pays the extra charge arising out of the improvements which are put upon the farm after he purchases it. Typically, the total cost of title insurance policies ranges between $50 and $100 depending upon the investment in the farm, the State in which it is located and the company which issues the insurance.

The premium on a policy insuring the title to a farm in Arkansas costing $5,000 or less is presently $45 for mortgagee coverage and $10 for owner coverage, making $55 for the protection of both. The premium for mortgagee insurance increases $7.50 for each $1,000 or fraction thereof above a base of $5,000. The owner's premium remains the same ($10) regardless of the amount of the loan. Let us assume that a borrower in Arkansas obtains a farm-ownership loan of $7,500 out of which he pays $4,000 for a

farm and $3,500 to improve and develop it. The premium on the first $5,000 of value would be $55 of which $10 would be paid by the buyer; $45 would be paid by the seller. The improvements put on the farm by the borrower would increase the investment $2,500 above the $5,000 minimum. Since the charge is $7.50 per $1,000 or fraction thereof above $5,000, it would in this case amount to three times $7.50 or $22.50. Thus, the total premium would be $77.50 of which the seller would pay $45 and the borrower $32.50.

Rates in other States are comparable to those cited above. The charge of $10 for the owner's insurance is quite uniform throughout the United States.

Clearing titles on farms selected by farm-ownership borrowers is often the occasion of considerable delay in consummating the purchase of a farm. Borrowers often grow impatient over this delay but the local attorney who represents a title insurance company may handle title work as an odd job to be attended to as other more important tasks permit. Similar delays may occur, also, when titles are examined and opinions rendered by abstract examiners.

Title insurance companies desiring to engage in farm-ownership business submit their credentials and terms on a form called "A Standard Uniform Proposal." All companies meeting established requirements are placed upon the approved list. No employee or other person connected with the Farmers Home Administration is permitted to instruct or encourage any seller or buyer to obtain title or abstract insurance or abstract examination service from any particular one of several approved sources.

Obtaining Maximum Rights in Minerals on Farm Ownership Farms

Although the purchasers of farm-ownership farms pay prices for them which are justified by their earning capacity values as farms, nevertheless, such purchasers are concerned about who owns the minerals which may lie on or under the surface of their farms. Depending upon circumstances, a borrower may or may not obtain title to minerals when he obtains title to a farm. Mineral rights and rights to use the surface of land for agricultural purposes are legally separable. Ownership of all minerals or of certain stated minerals may be vested in one person while ownership of the surface of the land for agricultural purposes may be vested in another person.

In a legal sense, the term "minerals" does not always mean the same thing. Usually, it is construed by courts to mean metallic minerals such as gold, silver, copper, iron, zinc, lead, etc., and carbon derivatives such as coal and oil. Even sand and gravel may be classified as minerals. The same is true of clay when it has commercial uses. Sulphur, limestone, quarry stone, rock phosphate, etc., may be classed as minerals.

There are two ways in which the purchaser of a farm may be affected by the ownership of the mineral rights appurtenant to his farm. If it develops that there are valuable minerals on or under his farm, his wealth is increased accordingly if he holds title to them. Within the past 10 years, several purchasers of farm-ownership farms have paid for those farms from

oil royalties despite the fact that they were unaware of the presence of oil when they purchased the farms. Since the ownership of mineral rights carries with it the privilege of access to the minerals for purposes of development, a farm may be damaged by development activities. Examples of the complete destruction of land for agricultural purposes may be observed in certain areas in Pennsylvania, West Virginia, Ohio, Indiana, and the Dakotas, where strip mining for coal or lignite is practiced.

For the foregoing reasons, it is the general policy of the Farmers Home Administration that farm-ownership borrowers shall, when it is possible for them to do so, obtain title to minerals as well as title to the land purchased or improved with the proceeds of farm-ownership loans. Instructions bearing upon this subject read as follows:

It is the general policy of the FHA that borrowers will hold all of the mineral rights in land purchased, improved, or refinanced with the proceeds of farm-ownership loans. In some instances, however, sellers may refuse to transfer mineral rights, or such rights may be vested wholly or partially in third parties. In such situations, field officials are to be guided by the principle that, with respect to the minerals, the applicant should make as good a bargain as is possible in the circumstances.[1]

Preventing Side Agreements With Respect to Farm Ownership Transactions

Side agreements between applicants for farm-ownership loans and sellers of farm-ownership farms involving a purchase price greater or less than the option price are in violation of the Farmers Home Administration Act. Any party entering into such side agreements or misrepresenting in any way the purchase price is subject, upon conviction, to a $2,000 fine or imprisonment for 2 years or both, as provided in the act and specified in the option. The FHA supervisor is responsible for informing applicants and sellers regarding these penalties.

If the FHA supervisor or any employee becomes aware of a side agreement before a farm-ownership loan is closed, the Farmers Home Administration may refuse to make the loan. If the side agreement is discovered after a loan is closed, action may be taken to foreclose the loan and to recommend legal proceedings under the penalty provisions of the act. Disciplinary action may be taken against the FHA employee in cases in which they have been remiss in discharging their responsibilities or have been implicated personally in the offense committed.

Setting-Up Estates Which Establish Survivorship Rights in Event of Death of Husband or Wife

If possible under State law, titles to farms which secure farm-ownership loans shall be conveyed to or held by borrowers, if married, as estates with survivorship rights, except in those cases in which (1) the wife is a minor and cannot, under State law, enter into a binding contract for all purposes, or (2) the wife is not a citizen of the United States. Where the wife is an alien or incapable of contracting because of minority disability, the conveyance will not be made to the husband and wife, but the State director may, upon determination in each case that the status of the wife will not

[1] FHA Instruction 421.2, par. III (February 10, 1947).

affect the soundness of the loan, approve a conveyance to the husband alone. Estates with survivorship rights are of two kinds: (1) Tenancies by the entireties and (2) joint tenancies with the right of survivorship. The advantage of holding title in this manner is that upon the death of either the husband or wife the farm automatically becomes the property of the survivor. Final settlement of the estate can then be made at minimum of expense and with a maximum saving of the borrower's equity, particularly in those cases where there are minor children. These advantages should be clearly explained to borrowers. On the other hand, in the case of sole ownership by the husband, if he dies without leaving a will, title to the farm passes to his heirs in accordance with the laws of the particular State, which may or may not give an interest to the wife. Sole ownership in the husband is preferable to tenancy in common, however, because of the possibility of disposal of the entire estate by will, whereas a tenancy in common will result in divided interests upon death of one of the owners.[2]

Observing Specific Restrictions on Farm Ownership Loans

Under the Bankhead-Jones Farm Tenant Act, as amended, and policies adopted, farm-ownership loans cannot be made to: [3]

1. Any corporation, partnership, or cooperative association.
2. Carry on any operations in collective farming or cooperative farming.
3. Carry on any Government land-purchase or land-leasing program, or to organize, promote, or manage homestead associations, land-purchasing associations, or cooperative land-purchasing for colonies of rehabilitants and tenant purchasers.
4. Purchase or refinance indebtedness against machinery, tools, equipment, livestock, and similar items legally not considered real property. A production and subsistence loan will not be made to pay the principal or interest or a mortgage insurance charge on a farm-ownership loan.
5. Finance any farm development not located on the property covered by the mortgage (deed of trust).
6. Pay real property insurance premiums.
7. Pay mortgage insurance charges on insured loan.
8. Purchase a building located on an outside tract to be moved to a farm-ownership farm, unless an exception is made in a particular case by the State (FHA) director.

Maintaining Farm-Ownership Farms

The Bankhead-Jones Farm Tenant Act, as amended, provides that "the instruments under which the loan is made and security given therefor shall . . . be in such form and contain such covenants as the Secretary shall prescribe . . . to assure that the farm will be maintained in repair and waste and exhaustion of the farm prevented."

In order to comply with the foregoing legal provision, periodic property inspections of farm-ownership farms are made by county FHA supervisors. Such inspections are made annually until a borrower demonstrates by the manner in which he maintains his property that less frequent inspections will suffice. Facts disclosed by property inspections are recorded for ready reference. Observations are made with respect to foundations, framing and bracing, outside walls, roofing, gutters, steps, railings, windows, doors,

[2] FHA Instruction 427.1, par. VIII (October 8, 1947).
[3] FHA Instruction 401.1, par. II (August 26, 1948).

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screens, inside walls and ceilings, floors, chimney, yard, and walks. Decisions are made as to whether needed repairs are to be accomplished by repairing, replacing, painting, or whitewashing. The water system, sewerage disposal systems, fences, and gates are carefully examined and reported upon. The irrigation system, if any, is inspected. Progress with respect to carrying out soil-conservation plans is noted. Observations are recorded on a form which also calls for a record of the expenditures made in connection with property maintenance during the preceding 12 months and an estimate of the expenditures required during the ensuing 12 months.[4]

Current FHA instructions provide that "when annual inspections are no longer necessary, the county FHA supervisor will so indicate by appropriate notations on the property maintenance check sheet. . . . In making property maintenance inspections, it is desirable that the borrower work closely with the inspector. . . . In connection with each required inspection, a brief memorandum of agreement concerning each necessary item of property maintenance will be recorded on the blank page following the farm and home plan in the borrower's farm family record book. This memorandum will list the necessary items mutually agreed upon to be undertaken, the estimated cost of each necessary item, and the planned starting and completion dates."

Seeing That Taxes on Farm-Ownership Farms Are Paid When Due

A record of the dates on which each farm-ownership borrower's taxes fall due is maintained by each county FHA supervisor. A signal file is maintained which brings each borrower's tax record up for consideration in advance of each tax-paying date. County FHA supervisors are required to obtain positive evidence of the payment of each tax by having the borrower bring or send his tax receipts to the county office immediately after payment or by checking the tax record at the office of the appropriate taxing authority directly following the delinquent date of the tax.

Not later than 1 week after the delinquent date of each tax or any instalment thereof on which penalty accrues, the county FHA supervisor is required to prepare a report for submission to the State office. This report consists of (1) a statement to the effect that there are no tax delinquencies in the county, or (2) a list by counties of the farm-ownership borrowers who have not paid the tax in full, together with a statement to the effect that all borrowers not so listed have paid their taxes in full. If a farm-ownership borrower is unable or unwilling to pay the delinquent tax from his own funds after every appropriate effort has been made to have him do so, the tax will be paid by the Farmers Home Administration and charged to the borrower's account.

Each State office maintains a Kardex control record on tax payments by counties based upon the reports submitted by the respective counties.

Keeping Farm-Ownership Properties Insured Against Losses by Fires, Storms, or Other Insurable Causes

Since farm-ownership loans, generally speaking, are 100 percent loans made to persons who are unable to get credit from private or cooperative

[4] Form FHA–929 (September 17, 1946).

sources, it is a matter of first importance that the properties securing such loan be insured against losses caused by fire, storms, or other insurable hazards. All properties held as securities for farm-ownership loans are so insured, continuously and without interruption from the moment loans are closed until they are paid in full.

As of December 31, 1949, improvements on 41,712 farm-ownership farms were insured in the amount of $226,569,000 or an average of $5,432 per farm. As of that date 21,095 losses had been sustained for which insurance settlements were made in the amount of $6,607,300. This is the amount of loss which, in the absence of insurance, farm-ownership borrowers would have sustained. It is the amount by which the value of securities on outstanding farm-ownership loans would have been reduced if those securities had not been insured.

Transcending in interest and importance all other matters related to insuring farm-ownership properties is the unique character of the property insurance originally carried by all borrowers and now carried by about 64 percent of all borrowers. It is replacement insurance under which the company issuing it agrees to replace property damaged or destroyed. It differs from conventional property insurance under which owners are partially protected against loss by a policy providing for the cash payment of the depreciated value (actual cash value) of each insured structure. This difference may be clarified by illustration.

Let us assume that all of the buildings on a farm-ownership farm are completely destroyed by fire. If the owner carried replacement insurance, it would be the responsibility of the insuring company to completely replace the buildings with like or equivalent structures. If, on the other hand, the buildings had been insured by a standard or conventional policy the owner would receive a cash sum from his insurance company. This sum would be based on the amount of insurance or the depreciated value of the various buildings destroyed. If they were very old and badly depreciated, the insurance payments would be small, but age and state of depreciation would have nothing to do with the situation in the case of replacement insurance. The buildings would be replaced.

The foregoing illustration is oversimplified. It would, for example, cost two or three times the total investment in some farm-ownership farms to replace the huge old-fashioned dwellings on them. Replacement insurance does not provide for rebuilding such oversized dwellings. It provides rather for the construction of a new dwelling agreed upon by the borrower, the Farmers Home Administration, and the insurer at the time the loan is made to be adequate in event a loss occurs. The new structure cannot cost more than it would cost to replace the original. It may cost less if a less costly structure is adequate to the needs.

When the farm-ownership program was started in 1937, all farm-ownership borrowers were required to take out replacement property insurance. Since July 1945 they have been permitted to choose between replacement insurance and conventional property insurance.

Replacement insurance was originally created to serve the needs of the projects administered by the Resettlement Administration. In 1936, there

were about 50 million dollars worth of improvements on these Government-owned, Government-sponsored projects, including three large suburban developments of which Greenbelt near Washington, D. C., is typical. The improvements were new. They had been built partly with relief labor according to plans and specifications drawn by Resettlement Administration architects and engineers.

It should be emphasized that replacement insurance met the needs of this situation particularly well. The Government or corporations under Government control held title to the properties. One agency having so much property to be insured was naturally in position to obtain insurance under favorable terms and conditions. The occupants of resettlement projects would be under no temptation to destroy buildings in order to cash in on insurance policies since the Government was the beneficiary of the policies.

There were, however, certain elements of difference between insuring resettlement project properties and farm-ownership properties. Farm-ownership borrowers held the titles to their respective farms. Property is insured in the names of individual borrowers. Some of the buildings insured on farm-ownership farms are new, some are old and badly depreciated. It might be greatly to the advantage of farm-ownership borrowers to have old buildings replaced by new ones. This fact and others gave rise to careful and extended consideration of the soundness and desirability of replacement insurance on farm-ownership property.

Early in his administration, Frank Hancock appointed a committee of FSA employees "to study and report upon the operations of our present property insurance program." [5] This committee found that "our insurance program has resulted in overinsurance" in certain cases which it described in detail. That the committee was unable to agree on certain fundamental issues is revealed by the chairman's characterization of the report as "not entirely satisfactory . . . since it is an attempt to compromise the various views." [6] A member of the committee declared that the report "missed the main point . . . In our opinion, which was concurred in by several of the regions, there is no serious problem . . ." [7]

Confronted with conflicting views within his staff, FSA Administrator Hancock sought the advice of recognized insurance authorities outside his organization. After consulting with the National Association of Insurance Agents representing stock companies and the National Association of Mutual Insurance Agents representing mutual companies, Administrator Hancock on March 3, 1944, appointed the following committee to review and advise with respect to FSA's property insurance program: McAlister Carson, president; McAlister Carson Insurance Agency, Inc., Charlotte, N. C., past president, North Carolina Association of Insurance Agents; Charles M. Boteler, executive vice president, the Mutual Insurance Agency, Inc., Washington, D. C., past president, the National Association of Mutual

[5] Letter dated December 31, 1943, addressed by Frank Hancock to L. H. Hauter, chairman, William T. Frazier, H. L. Welsh, J. H. Dance, B. W. Lodwick, C. Carter Chase, T. B. Fatherree.

[6] Memorandum dated January 22, 1944, from L. H. Hauter to Administrator Frank Hancock.

[7] Memorandum dated February 3, 1944, from W. T. Frazier to Administrator Frank Hancock.

Insurance Agents; Victor N. Valgren, in charge Insurance Section, Division of Agricultural Finance, Bureau of Agricultural Economics, United States Department of Agriculture.

This special committee filed its report on June 2, 1944. It found that ". . . the present insurance program is very favorable to the Farm Security Administration and to many of its borrowers" but it also found four "questionable features" which it described as follows:

1. Its (replacement insurance) demerit lies in the fact that in many instances it places the insured in position to obtain a new building for an old and depreciated one and thus gives rise to a temptation to bring about a loss once the insured becomes fully aware of the opportunity placed before him. This opportunity with its resulting temptation to profit by criminal acts or by unwarranted carelessness will become increasingly impelling as the insured houses grow progressively older and more depreciated in value . . . The questionable feature involved . . . can be remedied only by abandoning the replacement plan and substituting for it the cash-value plan as adhered to in other property insurance . . .

2. The denial of any choice or discretion on the part of the borrower in the selection of his insurance carrier and in the amount and nature of his insurance protection . . . The present insurance program gives the borrower no option or choice of any kind in the matter of his insurance. In this respect the insurance program seems unfortunately arbitrary and paternalistic.

It is suggested that FSA permit and urge its borrowers in all States, insofar as they find it practical, to arrange for their own insurance with State licensed companies or local agents of their own choice, provided of course that any company thus selected must be acceptable to FSA.

3. The absence of any provision or encouragement for borrowers to provide themselves with insurance on their personal property. Although the present program was apparently arranged to provide the borrower with exceptionally comprehensive insurance protection on buildings it normally leaves him entirely unprotected insofar as his personal property is concerned . . . The borrower should be permitted and in fact urged to insure his personal property under items of insurance separate from those applying on buildings.

4. The disregard or circumvention by the FSA-Houston contract of the spirit and intent of State laws in at least many of the States. Whether or not the FSA-Houston contract openly violates State laws, it cannot be said to accord with the spirit and intent of such laws at least in a number of the States . . . The present noncompliance with State laws involved in the FSA-Houston contract should be eliminated as soon and as fully as may be found practicable.

On July 2, 1945, the Farm Security Administration inaugurated the policy of permitting farm-ownership borrowers to insure their properties in the companies of their choice as long as certain requirements customary in conventional insurance circles are met. The following provisions are contained in current instructions.[8]

The State director, or his delegate, will accept insurance policies submitted by the borrowers when the following requirements are complied with fully:

[8] FHA Instruction 426.1, par. II A (June 3, 1947).

1. The company must be licensed to do business in the particular State or Territory, or specifically authorized by State law to transact business within the State or Territory where the property is located.

2. The policy must be the standard fire-insurance contract adopted or recommended by legislative action or by order of supervising insurance authorities of the State or Territory in which the loan is made. The original policy must be submitted by the borrower. A certificate of insurance or a copy of the policy is not acceptable.

3. The county supervisor should encourage the borrower for his own protection to insure, for the full depreciated replacement value, all buildings which are economically essential to the operation of the farm. However, the borrower will be required to obtain and pay for a minimum amount of insurance equal to the full depreciated replacement value of all buildings (except those which are entirely worthless or are in such a state of disrepair that the cost of insurance would be prohibitive), or the amount of the present indebtedness, whichever is less . . .

The manner in which farm-ownership borrowers have exercised their choice in the selection of insurance companies since they were authorized to do so in 1945 is revealed by the following tabulation:

DISTRIBUTION OF INSURANCE COVERAGE

(As of December 31, 1949)

	Loans (number)	*Amount of insurance in force*	*Loan, average per farm*
Company issuing insurance:			
Houston	26, 761	$128, 577, 000	$4, 805
Outside	17, 132	110, 286, 000	6, 437
Total	43, 893	$ 238, 863, 000	$5, 441

Has experience tended to justify the apprehension expressed by the committee of insurance experts about replacement insurance and particularly does the record suggest that borrowers have been inclined to burn old buildings in order to have them replaced by new ones? The answer is "no." Loss ratios in the farm-ownership program have not been high. It is true, however, that conditions have not favored incendiarism. Building materials have been very scarce and building costs have been very high. There has been no assurance that buildings could be replaced without extended delay regardless of who paid for such buildings. Experience alone will answer the question as to what may happen when old and depreciated buildings on farm-ownership farms can readily be replaced by new structures.

A special problem developed with respect to insuring farm-ownership properties in Northeastern States.[9] Estimated costs of replacing essential structures on many farms in these States has been substantially in excess of the total investments in the farms. Sometimes it has been two or three times as great. This is due to two causes. Climatic conditions are such that the cost of suitable dwellings is high. Dairying is the chief enterprise on many farm-ownership farms and heavy investments in barns and milk houses are necessary. Fire losses occurred on some farms on which build-

[9] States covered by this provision are Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Pennsylvania, Rhode Island, and Vermont.

ings were insured for several thousand dollars more than the investments in the farms. Cash settlements were frequently made in lieu of replacements because contractors were refusing to bid or were bidding excessively. The cash insurance settlements paid for the farms and left the borrowers with substantial balances. These balances would not meet the cost of essential new buildings so some borrowers merely kept their insurance money, sold their farms for what they would bring, bought other farms or quit the farming business. The loss ratio was high in the territory where these conditions prevailed.

To meet the problem described above minimum and maximum limits on property insurance coverage on farm-ownership farms in Northeastern States were established. In an administration letter issued September 1, 1948, the limits are stated as follows: [10]

The minimum amount of insurance required on all essential buildings on the farm will be the lesser of the two following amounts:

(1) The amount of the total farm-ownership indebtedness, or

(2) The cost of constructing adequate buildings essential for the operation of the farm.

The maximum amount of insurance that can be written on all buildings on the farm will be the lesser of the two following amounts:

(1) The cost of constructing adequate buildings essential for the operation of the farm, or

(2) One and one-half times the total investment in the farm as determined in FHA Instruction 401.2; or $12,000, whichever amount is greater.

Securing Unpaid Portions of Loans by Life Insurance Policies

The Farm Ownership Division report for the period September 1 to September 30, 1939, contains the following statement:

Some months ago the Oklahoma State FSA advisory committee pointed out the desirability of investigating possibilities of obtaining some form of life insurance under which TP borrowers might be covered in the amount of the unpaid balances on the loans obtained to purchase their tenant-purchase farms. The same proposal has been advanced by various members in the Farm Security staff. Upon inquiry the Tenant Purchase Division ascertained that the Resettlement Division has been investigating this problem during the last 2 years. Negotiations by the Resettlement Division finally led to the submission to the Secretary of Agriculture by a group of insurance companies of insurance contracts quoting rates under which group-term life insurance would be available to tenant-purchase borrowers and rehabilitation borrowers covering the unpaid portions of loans. This proposed contract represented a thorough-going study of the entire problem and brought the subject to a point where it could be considered in a concrete way.

Under the date of November 15, 1939, the Director of the Farm Ownership Division sent a memorandum to the Director of the Resettlement Division commenting in part as follows upon the insurance proposal:

A very good illustration of how it (the term life insurance plan) would work is afforded by the case of a 35-year-old borrower obtaining a $5,000

[10] AL–59 (426) par. II.

TP loan. His premium (for term life insurance) would be $50 a year in round numbers. At the age of 63, he would have had 28 years insurance coverage at a cost of $1,400. Had he applied his annual premium payments as extra payments under the variable payment arrangement, he would have paid off all but $7.14 of his debt in this time and his $1,400 so expended would have saved him $1,888.25 in interest. The question is, which is the better use of the $1,400? . . .

The insurance idea contemplates that an insured TP borrower will within his lifetime complete the retirement of his TP debt. He will accomplish this in two ways. He will meet principal and interest installments and will pay his annual insurance premiums, which will result in any unpaid portion of his debt being wiped out at time of death. By and large all insurance premiums paid in by all of the TP borrowers will equal the unpaid balance of their debts. The fact is then, as stated, that the original borrower will bear the financial burden during his lifetime of retiring the mortgage debts on his farm.

This introduces a rather fundamental change in the long-time loan arrangement which was formulated undoubtedly on the assumption that usually the original borrower will not complete the retirement of his purchase debt.

The concluding sentence in the foregoing quotation means that many borrowers obtaining farm-ownership, 40-year loans after they are 35 or 40 years of age will not pay them in full during their lifetimes.

On March 18, 1941, a contract was entered into with the Farmers Union National Life Insurance Association of Denver, Colo., under which term life insurance was to be made available to farm-ownership and rehabilitation borrowers of the Farm Security Administration in the States of Montana, Wyoming, Colorado, North Dakota, South Dakota, Nebraska, and Kansas. The policy available to farm-ownership borrowers had a lower limit of $1,000 and an upper limit of $2,000. It was not, therefore, for the full unpaid balance of the borrower's farm-ownership debt. The contract provided that insurance would be written only in unit areas (consisting of a single county or group of counties) in which 60 percent of the farm-ownership borrowers elected to purchase such insurance. The term was for 10 years and under an amendment to the contract this is renewable at the end of the term. The rates vary by ages and amounts. The annual premium on a $1,000 10-year term policy for a 35-year-old borrower was $9.50; for a 40-year-old borrower $11.10 and for a 50-year-old borrower $18.90. For a $2,000 policy the premiums were twice the foregoing amounts for each age group.

On April 18, 1941, an identical contract was entered into with the Washington Life Insurance Co. of Washington, D. C., under which term life insurance was to be made available in nine Southern States and Minnesota, Wisconsin, and Michigan.

It was not until 1942 that the first insurance was written under the above contracts. At an FSA conference held in Washington, D. C., in July 1945,[11] a check was made on the progress that had been made at that date in the

[11] Summary of Journal of Proceedings of Annual Conference, July 23–28, 1945, p. 31.

extension of term life insurance to FSA borrowers and the views of FSA officials on the question "Is life insurance a proper function of the FSA?"

The above question grew out of the fact that applications for term life insurance were taken by FSA supervisors. These applications were forwarded to the insuring company which issued the insurance certificate in favor of the borrower. There was objection to "pressuring" borrowers into taking insurance and some question as to whether 60 percent of the borrowers in unit areas would take insurance voluntarily. It was brought out that 13,000 out of 18,000 borrowers (both farm-ownership and rehabilitation) eligible to carry term life insurance in Texas and Oklahoma were doing so. Ten thousand out of twenty thousand eligibles were insured in the four States of North Dakota, South Dakota, Nebraska, and Kansas. In region V, embracing Alabama, Georgia, South Carolina, and Florida, only 15 percent of the borrowers were participating. One regional representative reported that "the borrower felt we were insuring him primarily to protect our own security." It was also revealed that group term insurance could not be obtained on the open market on an individual basis under such favorable terms as those available under the contracts in effect.

Collecting Principal and Interest on Farm Ownership Loans

The principles by which Farmers Home Administration employees are guided in determining the relative importance of various demands upon the net cash incomes of farm-ownership borrowers were set forth in the previous chapter. In this chapter other collection policies and procedures will be discussed.

First, it is essential that readers understand that payments on farm-ownership accounts fall into three classes which are named and defined as follows:

Regular payments.—All payments other than extra payments and refunds will be regular payments. Usually, they will be derived from farm income, but they will include also payments from off-farm income, inheritances, life insurance, and so forth. Obviously, most payments on farm-ownership accounts will be regular payments.

Extra payments.—Payments derived from the sale of the farm, or from refinancing of the farm-ownership debt, or from the sale of mortgaged property or from mineral royalties from leases which depreciate the value of the security, or from the cash proceeds of real property insurance will be extra payments.

Refunds.—Payments derived from unexpended farm-ownership loan balances will be refunds. Usually, such payments will be made but once in the life of a farm-ownership loan.[12]

In order to understand reports on debt payments by farm-ownership borrowers, it is also necessary to understand the meaning of the expression "schedule status." It was well explained by FSA Administrator Frank Hancock in his testimony before the Agricultural Subcommittee of the House Appropriations Committee in 1946. He said:

I should like to explain in some detail what is meant by "schedule" and why a collection report which reflects the schedule status of variable-pay-

[12] FHA Instruction 451.2, II A, July 1, 1949.

ment borrowers is a more accurate measure of progress than one which reports payments against maturities. Briefly, schedule is the amount required to amortize principal and interest payments within the period of the note . . . A borrower who pays this amount annually is on schedule; if he pays more, he is ahead of schedule; if he pays less, he is behind schedule.

A maturity report reflects payments against billings. A borrower who pays what he is billed to pay, be it large or small, is paying 100 percent of his maturities. Such a report fails to reveal whether a borrower is forging ahead or lagging behind. For this reason, regular reports on tenant-purchase collections will be issued on a schedule basis.[13]

Two forms are of special importance in connection with maintaining farm-ownership accounts. One is Form FHA–473B, on which the county supervisor keeps the only official record which shows maturities, amount prepaid and delinquencies of borrowers. The other form is "Statement of Farm-Ownership Account." Each borrower receives a statement of his account on this form as soon as it can be issued after April 15 of each year.

Experience has revealed that a uniform fiscal year for all borrowers greatly facilitates the collection task. It was provided in an early instruction [14] (October 31, 1938) that "payments will be calculated on the anniversary date of the note." However, few if any collections were made under that policy. On January 11, 1939,[15] it was superseded by a new order providing that the annual date for payments on notes "will be the concluding date of the borrower's fiscal year."

As a rule the fiscal year and the calendar year are identical. Although deviations from the calendar year are authorized there has been little tendency to take advantage of that fact.[16] The date of the borrower's first principal and interest payment is the first March 31 following the date appearing upon his loan check. The amount of the the first installment is agreed upon mutually by the county supervisor and the borrower. They take into consideration the borrower's financial condition and the extent to which he has received income from the farm before the first payment becomes due.

An order issued January 11, 1939,[17] established a 90-day grace period during which the routines of the collection process are performed. The order said in part "unless a period of grace is established, every variable payment borrower who delays his payment until the exact amount of the payment can be determined will be technically delinquent." Changes in collection procedure have minimized somewhat the importance of the grace period, but it is still in effect.

As to the place where collections are made instructions provide that "each borrower will be scheduled to meet with the county supervisor at the county office or at some other place to which the borrower may come conveniently." [18] It must be borne in mind in this connection that determining amounts to be paid, and collecting those amounts is tied in with a

[13] Agriculture Department Appropriation Bill, 1946, p. 513.
[14] FSA Instruction 763.1, II A 1.
[15] Administration Letter 198.
[16] Deviations from calendar year authorized in FHA Instruction 437.1, III, A, B. C. (July 28, 1948).
[17] Administration Letter 198.
[18] FHA Instruction 437.1, par. IV (July 28, 1948).

very thoroughgoing analysis of the borrower's business as reflected by his records.

It is the policy to encourage borrowers to make payments whenever money becomes available that appropriately can be spared for that purpose. While some borrowers are able to live within approved budgets and accumulate reserves for year-end debt payments, others find it difficult to do so. The greatest difficulty is experienced in the cash-crop area where the prevailing system of landlord-tenant settlement has established the custom of paying debts when sales occur. The fact that payments may have been made from time to time during the year does not interfere at all with a final settlement at "checkout" time. The situation is similar to that in Federal income-tax procedure under which final adjustments in income-tax payments are made after the end of the year.

Refinancing Farm-Ownership Loans

Among the amendments to the Bankhead-Jones Farm Tenant Act listed in chapter I is one which became effective with respect to new farm-ownership borrowers on November 1, 1946. It requires each borrower, upon request of the Secretary of Agriculture, to apply for and accept a loan in sufficient amount to repay his debt. In conformance with this provision instructions provide that "each year following the completion of checkouts, the county supervisor will review all outstanding . . . loans made on or after November 1, 1946, and will present for consideration of the county committee those on which 35 percent or more of the principal of the loan has been repaid." Each borrower believed by the county committee to be able to secure refinancing is notified by letter to attempt to do so and report the results of his efforts within 60 days. Borrowers reporting that they are able to secure other financing are instructed to do so. If borrowers report that they are unable to secure refinancing or fail to report, the action then taken will depend upon the circumstances. If the borrower has not attempted in good faith to secure other financing and it appears that other financing is available and if consummated will not prevent the borrower from succeeding, the State director is under instructions to proceed with liquidation of the borrowers' securities.

Consenting to Changes in Contracts and Applying the Proceeds From Sales or Leases of Securities

The Bankhead-Jones Farm Tenant Act requires that many matters be covered in the covenants that are entered into between the borrower and the Government.[19] There must, therefore, be provisions for modifying these covenants under justifiable circumstances. The following are among the contractual changes to which consent must be given by an authorized person: making unplanned improvements on farms; granting easements, rights-of-way for roads, power lines, etc.; the sale or exchange of portions of farms; the sale or exchange of water rights; the sale or lease of minerals; sale of naval stores; use or sale of timber; sale of sand, gravel, stone, or coal. The security instrument, of course, permits the borrower, without the consent of the Government, to use such timber, gravel, oil, gas, coal,

[19] Sec. 3, Bankhead-Jones Farm Tenant Act.

and other minerals as may be necessary for ordinary domestic purposes. Also, since it is the responsibility of the borrower to keep the land in a good state of cultivation, as well as farm buildings and fences in good repair, so that the farm will continue to meet minimum farm-ownership standards, the borrower is not required to obtain consent to perform normal maintenance, repairs, or the construction of movable buildings.[20]

When applications are received for permission to deviate from, or for release from, the terms of the security instruments with respect to those items for which the borrower must obtain the consent of the Government, two basic questions are raised: (1) Will the proposed action impair the operation of the farm as an efficient family-type farm-management unit, and (2) will the interest of the Government be impaired?

When no adverse consequences will result and the action is in line with sound business practice, consent to the action is given by the authorized person.

When the sale of land, timber, minerals, etc., results in the depletion of the Government's security, sufficient of the sales proceeds to compensate for the depletion must be applied as an extra payment on the borrower's account. However, proceeds from the sale of timber cut on the basis of sustained yields is regarded as agricultural income and applied in the same manner as income from crops, livestock, etc. Proceeds from the sale of timber other than that harvested on a sustained yield basis is applied as an extra payment to the extent of the stumpage value of the timber. The additional amount received by the borrower for cutting and hauling is considered regular income and any amount thereof paid on the borrower's account is applied as a regular payment.

The sale of mineral rights or royalties deplete the Government's security and, therefore, the proceeds from such sales are applied as extra payments. However, bonuses and rentals received by the borrower for mineral leases are considered as regular income and any part paid on the borrower's account is applied as a regular payment.[21]

Actions Resulting From Deaths of Borrowers, or Sales or Abandonments of Farms and Other Violations of Contracts

Each farm-ownership borrower in obtaining a loan with which to acquire and develop an efficient family-size farm, enters into certain agreements and executes a security instrument and agrees to abide by the covenants contained therein. Some of the covenants are:

. . . personally and continuously to use said property as a farm and for no other purpose . . . to institute and carry out such farming practice and farm and home management plans as mortgagee shall prescribe . . . that, should mortgagor assign, sell, lease, transfer, or encumber said property or any interest therein voluntarily, involuntarily, or otherwise or should he abandon said property or become an incompetent or be declared a bankrupt or an insolvent or make an assignment for the benefit of creditors or fail to keep, perform, and comply with any covenant, warranty, or condition in this instrument without the consent of the mortgagee, or upon the

[20] FHA Instruction 465.1 (July 8, 1948).
[21] FHA Instruction 465.1 (July 8, 1948).

death of mortgagor, mortgagee may declare the amount unpaid immediately due and payable and thereupon exercise any remedy provided herein or by law.

When a farm-ownership borrower dies the surviving members of the family are shown every possible consideration and given all possible assistance in handling legal matters and various other problems which arise. Ample time is allowed for survivors to decide whether they desire to continue to live on and operate the farm. Their wishes usually prevail. If it develops that because of age, mental or physical condition, or lack of family labor, there is doubt about the family's ability to successfully carry on with the advice and assistance that can be extended to them, negotiations are entered into for liquidation of the account by transfer of the farm to an approved applicant, voluntary conveyance of title to the Government, or other action to release the family from the real-estate obligation.[22]

It is the policy of the Farmers Home Administration to foster and facilitate the continued operation of farm-ownership farms by eligible borrowers and their families. Therefore, when it is found through supervisory contacts or otherwise, that a borrower is failing in any way to live up to any of the covenants above-mentioned, the county supervisor makes every effort to analyze the borrower's problems with him and arrive at a solution whereby the borrower will be able successfully to carry on with his undertaking. If the supervisor fails in working out a satisfactory arrangement with the borrower, he will discuss the case with the State field representative. He may also call on the county committee for their advice. In many cases arrangements are made for the borrower to meet with the county committee, and his entire situation is discussed in an effort to work out a plan whereby he may remain on the farm and enjoy the benefits for which the loan was made.[23]

In those cases where a plan cannot be developed with the borrower whereby he may continue on the farm and where such farm is suitable for use in the program, an attempt is made to get the borrower to transfer the farm to an approved applicant.[24] From inception of the program to June 30, 1948, there were 7,527 loans liquidated. Out of that number 2,649 or 35.2 percent were transferred to approved applicants, thereby preserving that number of farms for use in assisting worthy families. If the borrower is unwilling to transfer his farm to an approved applicant, an effort is then made to get his cooperation in conveying title to the farm to the Government.[25] Such action is less expensive and less troublesome than foreclosure to both the borrower and the Government. Also farms which are suitable for use in the program are by this means made available for sale to an approved applicant. Of the total number of accounts liquidated only 617 or 8.2 percent have been conveyed to the Government through voluntary conveyance.

It is recognized, of course, that circumstances may arise wherein a satisfactory plan cannot be worked out for transferring the farm to an approved

[22] FHA Instruction 465.1 (July 8, 1948).
[23] FHA Instruction 465.4 (July 1, 1948).
[24] FHA Instruction 465.2. (In process of clearance.)
[25] FHA Instruction 465.3 (Nov. 14, 1947).

applicant, or acquiring title by voluntary conveyance, and the borrower may be justified in selling his farm outside the program. When a borrower is authorized to sell his farm outside the program, it is with the understanding that the sale will result in the complete liquidation of, or satisfactory arrangements with respect to all other indebtedness owed by the borrower to the Farmers Home Administration.[26] As of June 30, 1948, there had been 4,020 loans liquidated through the sales medium. This represented 53.4 percent of all liquidations as of that date.

In some cases borrowers vacate their farm-ownership farms without making proper arrangements with the Government. In such event, it may become necessary that the Government place the farm under a caretaker's agreement, or lease the farm on behalf of the borrower, pending a determination as to what action will be taken with respect to liquidation. Such actions are taken to protect the interest of the borrower as well as that of the Government.[27]

When it is determined that further attempts to work out a satisfactory plan whereby the borrower may continue with the operation of the farm are useless, and the borrower cannot be persuaded to transfer the farm to an eligible applicant, voluntarily convey title to the Government, or liquidate the indebtedness through sale of the farm, foreclosure action is instituted as a last resort to protect the interest of the Government. Farmers Home Administration procedures state that:

> . . . foreclosure action is warranted if the borrower has materially breached one or more of the covenants of the security instruments or other agreements which he signed in connection with his loan including, but not limited to, delinquency or failure to meet the required scheduled payments on his loan, failure to reside on or personally operate his farm or allow the security to depreciate, and the State director determines that the default or breach of the covenant cannot be cured by remedial action within a reasonable period of time.[28]

When all appropriate remedial measures have been exhausted and it is evident that foreclosure proceedings are necessary to carry out the intent of the act and to protect the interest of the Government, such proceedings are initiated without delay. From inception of the program through June 30, 1948, foreclosure action has been instituted in 239 cases which is 3.2 percent of the total liquidations to that date.[29]

As an example of a foreclosure case the following is related, with names and locations omitted for obvious reasons. A loan for $8,010 was made to purchase and improve a 100.95-acre farm, and the family occupied the farm on February 21, 1947. In addition to the tenant-purchase loan, a production and subsistence loan in the amount of $1,336 was approved for the purchase of 7 cows, a wagon, rake, duster and for the payment of hazard insurance.

Shortly after the borrower moved on the farm, he advised the supervisor that he had purchased the cattle for which production and subsistence loan

[26] FHA Instruction 465.1, XI (July 8, 1948).
[27] FHA Instruction 465.1, VIII (July 8, 1948).
[28] FHA Instruction 465.4 (July 1, 1948).
[29] FHA Instruction 465.4 (July 1, 1948).

funds were advanced, but because his pasture was not yet ready he had left the livestock on another farm in an adjoining county. Since the borrower was highly recommended by responsible persons and had been honest in every respect prior to that time, the county supervisor countersigned the check for delivery to the seller of the livestock, and a chattel deed of trust was obtained from the borrower.

Later in the year when feed and pasture became available on the farm of the borrower, the county supervisor suggested to the borrower that the livestock be moved to his farm. Several visits to the farm by the supervisor revealed, however, that the livestock had not yet been brought to the farm. The supervisor began to check very closely on the borrower and found that he was being dishonest in his operation. The county supervisor encountered difficulty in locating the borrower as it seemed he was never at home when the supervisor called. Very little farming was done by the borrower during the year 1947 which, of course, was in violation of his agreement to carry on such farm program as recommended by the Secretary of Agriculture. The borrower rented out some of his farm which was also in violation of the covenants of his contract. It was further found that he destroyed certain timber located on the farm. In view of the violations by the borrower of his agreements, it was determined, with the advice of the regional attorney, that foreclosure action should be instituted, and a letter was submitted to the borrower from which portions are quoted below:

> . . . I find that you have failed personally and continuously to use the property as a farm and have neglected to institute and carry out such farming practices and farm and home management plans as have been prescribed. You have also destroyed a number of large cherry trees, conservatively estimated at not less than Five Hundred Dollars ($500.00), in value, and without the consent of the United States of America, have rented cropland to an adjoining farmer on a share basis. You have also failed to account properly for loan funds advanced for the purpose of purchasing building materials and fertilizer. Accordingly, I have determined and do hereby determine that you have failed to keep and perform the aforesaid covenants, and do hereby declare the entire indebtedness due and owing to the United States of America and secured by the aforesaid deed of trust, immediately due and payable and demand immediate payment thereof . . .
>
> Unless you make payment of said indebtedness in accordance with this demand on or before the 12th day of July 1948, I shall request the trustee named in the deed of trust to foreclose the deed of trust, and sell the farm in accordance with the powers conferred upon the United States of America and the trustee as set forth in the deed of trust.

The above-mentioned foreclosure action was consummated and title to the property was acquired by the Government on November 16, 1948, as a result of the Government being the high bidder at the foreclosure sale.

Management and Disposition of Acquired Farms

Farms which are acquired by the Government either through voluntary conveyance or foreclosure are sold or otherwise disposed of as expeditiously as possible, consistent with the protection of the Government's investment in such farms. Farms which are determined to be suitable for purposes of title I are sold to approved farm-ownership applicants. Farms which are determined to be not suitable for title I purposes are sold at public or private sale to any individual at the best price obtainable, after public notice, unless special reasons require their transfer to an appropriate Government agency

for disposition. Farms which are suitable for use in the program are usually sold on a credit basis pursuant to the provisions of title I of the Bankhead-Jones Farm Tenant Act, as amended, and thereby the purchaser enjoys all the benefits provided under the Act.[30]

During the time acquired farms remain in Government inventory they are managed under the direction of the county FHA supervisor. In some cases it is necessary that the farm be placed in charge of a caretaker in order that the Government's interest may be protected. In other cases it is necessary that the farm be leased. Taxes must be paid which fall due during the time title to the property remains in the Government. It is the policy of the Farmers Home Administration to dispose of acquired farms as rapidly as possible, consistent with sound business practice.[31]

[30] FHA Instruction 465.5 (December 12, 1947) and FHA Instruction 465.6 (April 14, 1948).
[31] FHA Instruction 465.5 (December 21, 1947).

Chapter XIII

ATTITUDES OF FARM-OWNERSHIP BORROWERS

Bureau of Agricultural Economics Asked to Survey Borrower Attitudes

What do farm-ownership borrowers really think about the farm-ownership program? As they view it, is it as good a thing as its advocates claim? Does it work out in practice as intended in theory? Is supervision helpful? Is it carried out in a manner that stimulates initiative, self-reliance, self-respect, and independence? Or does it stifle, hamper, regiment, and restrict the lives of those who are its intended beneficiaries?

The Farm Security Administration wanted these questions answered by competent and impartial authorities. Within the Bureau of Agricultural Economics of the United States Department of Agriculture a Division of Program Surveys maintained a staff of survey specialists experienced in finding out what farmers were thinking about various programs related to their welfare. Under the date of May 28, 1945, the Farm Security Administration asked the Bureau of Agricultural Economics to make a survey of the attitudes of farm-ownership borrowers.[1] Parts of the letter requesting the survey are quoted below:

The Bankhead-Jones Farm Tenant Act will complete its eighth year of operation June 30 next. Loans aggregating in excess of $220,000,000 will have been made to more than 38,000 borrowers at that time. These borrowers invested less than 0.2 of 1 percent of their own money in the farms at the time of purchase. The soundness of the policy of lending 100 percent of the purchase price of farms to low-income purchasers who are unable to get loans through regular commercial channels is based to an important extent upon the fact that each borrower is supposed to carry on his operations under a farm and home management plan "mutually developed" by him and the county supervisor of the Farm Security Administration. It is largely upon that assumption that the 100 percent loan policy is predicated. Its validity depends primarily upon two propositions. First, the borrower must be conscious of his plan and operate substantially in accordance with its provisions. Second, he must do so willingly and with a conviction that his own interests are best served thereby. If borrowers are not conscious of their plans and motivated by them it is obvious that such plans make no contribution to the soundness of the 100 percent loan. Furthermore, if the supervisory relationship existing between the borrower and the supervisor is objectionable and obnoxious to the borrower, it cannot be expected to survive.

[1] Letter from R. W. Hudgens, Associate Administrator, Farm Security Administration, to H. R. Tolley, Chief, Bureau of Agricultural Economics.

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It is to get at the facts with respect to these two basic matters in a more thorough and objective manner than is possible through administrative channels that this study is proposed. The findings will provide the basis for formulating long-time administrative policies and for rendering current administrative effort more effective. The following specific questions were proposed:

1. Are the borrowers actually aware of the farm and home plan or do they regard it as merely a formality they have to follow in order to get a loan and then forget as soon as the loan is made; do they consciously try to follow the plan; what is their attitude toward it and the supervision exercised by the FSA county supervisor in furtherance of the plan?

2. How does the borrower evaluate the idea of farm ownership and its responsibilities as compared with tenancy; is he conscious that he is actually buying a farm or does he think he is merely using a "Government farm"?

3. What are the attitudes of the county supervisors themselves toward the program they administer and toward their borrowers; do they regard themselves as "straw bosses" or as consultants; do they "mutually develop" a plan with each borrowing family or is a plan more or less forced upon the borrower?

Findings of the Bureau of Agricultural Economics

The Bureau of Agricultural Economics responded favorably to the foregoing request. In January 1946, it submitted its report entitled "Attitudes Toward FSA Tenant Purchase Program—A Survey of TP Borrowers and Supervisors in the South and Midwest." [2] Labeled "For Administrative Use Only," it was discussed at national and regional FSA conferences and in transmitting it to regional FSA directors [3] the FSA Administrator said: "It merits your closest scrutiny . . . State directors should make the report the subject of discussion with district supervisors and State farm-ownership specialists. Finally, district supervisors should see that the report is properly studied in their district by county supervisors."

The BAE report devoted 56 pages to the attitude of borrowers on general matters, farm and home management planning and other forms of supervision. It devoted 13 pages to the attitudes of borrowers' wives on these identical subjects and 14 pages to the attitude of supervisors as they related to or perhaps accounted in some way for the attitudes of borrowers. Pertinent portions of the report and the unabridged "general summary" follow:

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[2] The BAE report contains the following statement about the manner in which the survey was conducted: "This study is based on four samples taken in two regions, the South and the Midwest. Borrowers on the tenant-purchase program of the Farm Security Administration, together with their wives or housekeepers, constitute the first two samples, FSA county supervisors form the third sample, and the fourth consists of FSA home supervisors. The Southern States included in the sample are Georgia, Alabama, Mississippi, and Arkansas; the Midwest States are Missouri, Iowa, Minnesota, and Wisconsin. . . . FSA county supervisors were interviewed in each of the 40 sampling units and in a county contiguous to each unit, making a total of 80 county units in the sample of supervisors. Home supervisors were also interviewed in each of the units where such a supervisor functioned. A total of 48 home supervisors makes the entire sample of supervisors amount to 128 which is not divided regionally except where differences of more than 20 percent were found to exist. Home supervisors did not differ significantly from farm supervisors in their attitudes.

[3] Letter from Dillard B. Lasseter, Administrator, to all regional directors, dated February 15, 1946.

General Attitudes of Borrowers Toward Farm-Ownership Program

Nearly every TP borrower likes the tenant-purchase program

More than half the TP clients both in the Midwest and South express unqualified satisfaction with the program and an additional two-fifths say they are satisfied but have some reservations. Fewer than 1 in 25 indicate dissatisfaction.

Almost all purchasers are satisfied with their TP farms

More than 90 percent of the borrowers in both regions say they are satisfied with the farms they have bought under the tenant-purchase program and only 1 in 50 are dissatisfied with their purchases. Main reason for dissatisfaction are poor accessibility because of bad roads, isolation from schools and markets, and inferior quality of land. Satisfied borrowers most often mention independence and permanency as grounds for contentment with their purchase.

Nearly all purchasers regard their farms as permanent property

In order to determine whether TP borrowers really thought of their farms as personal, permanent property or looked on them merely as "Government farms" or speculations, questions were asked about inheritance plans, intention to remain on the farm for life, and the planning of long-range improvements. On the basis of answers to these questions a composite rating of "attitude toward ownership" was devised.

Two-thirds of the Midwesterners and over four-fifths of the Southerners say without equivocation that they plan to leave their farms to their heirs. Very few say definitely they do not expect to remain on their farms; three-fourths of Midwest and four-fifths of the Southern borrowers state unqualifiedly they plan to spend their lives on the farms they have bought. In both regions, only about 1 in 20 purchasers are not planning long-range improvements. In the composite rating of attitude toward the farm none out of 10 Southerners and almost as many Midwesterners seem to regard the farms as their own and definitely not as any form of speculation or Government "relief."

TP farmers are nearly unanimous in holding that farm owners are better off than renters

Since practically all TP clients are former tenants or share croppers, they have a basis of experience on which to evaluate owner versus renter operation. The overwhelming approval they give to ownership may be larger than it would be in a cross-section of all farmers because they were people in low-income brackets with inadequate credit and their chances of becoming farm owners without help were not great. (Ninety-seven percent of Midwest borrowers and 99 percent of Southern borrowers said an owner of "a farm like this" is better off than a renter.)

Reasons owner is better off:	*Midwest (percent)*	*South (percent)*
Can make long-range plans and improvements, do not have to move	66	68
Have greater economic security, payments buy own place	51	56
Have independence and freedom	29	29
Have increased pride, self-confidence, initiative	15	9
No reasons given	3	1

Typical comments:

I know who will benefit by the improvements and I can build up the land because I know I'm going to be here. Both landlord and tenant lost in renting. This is the best break I ever got—it's the best thing for the little man that ever happened.

If I was renting this farm I'd pay at least $1,200 rent. My biggest payment was $800 so I had $400 extra to improve my family living conditions. We live much better than I'd ever dared hope we could.

The Farm-and-Home Management Plan

Most borrowers have changed their farming methods since coming on the TP program

Three-fourths of the Midwest borrowers and slightly more of those in the South say they have made changes in their manner of farming since becoming clients of the tenant-purchase program. The leading changes Midwesterners mention are improved methods of soil cultivation (contouring, fertilization, etc.) and increased use of cover crops and pasture. Southerners have enlarged their livestock enterprise and made greater use of improved cultivation techniques.

Only about one-fourth of the Midwest borrowers spontaneously mention the farm-and-home plan in regard to changes and causes of changes in their farming methods, although three-fourths of them say they have made such changes. In the South, four-fifths of the TP clients say they have changed their farming procedures but only about 1 in 15 mention the farm-and-home plan in this connection. Practically none of them distinguish between the annual and long-time plans.

Less than half of the Midwesterners; fewer than one in seven Southerners, have adequate understanding of the farm-and-home plan

In order to determine how well borrowers understand their farm-and-home plans, they were specifically questioned on different aspects of the plan. They were first asked whether a particular aspect was dealt with by their current F and H plan and, if so, were requested to describe just how it was incorporated into the plan. These questions not only gave a measure of borrower awareness of different phases of the plan but also indicated understanding of the function of each phase. Six aspects of the plan were covered by these questions. If a borrower was able to supply information in any detail on all six he was regarded as having adequate knowledge of the plan. Detailed information on three to five aspects was looked upon as indicating fairly adequate understanding, while ability to describe only one or two aspects was regarded as evidence of inadequate knowledge. On the above basis of evaluation borrowers were classified as follows:

	Midwest (per-cent)	*South (per-cent)*
Have adequate knowledge of details	46	14
Have fairly adequate knowledge of details	43	55
Have inadequate knowledge of details	3	6
Have no knowledge of details	1	**
Say they never had a plan	2	13
Say they have no plan now	5	12
Total	100	100

Aspects of the plan about which borrowers seem to know most are the estimation of farm operating expenses and the income-expense record-keeping. Estimation of capital goods expenditures appears to be least understood. In all cases, fewer clients in the South than in the Midwest are able to give detailed information about any aspect of the F and H plan.

Borrowers who have changed their farming practices are best informed on the F and H plan

We have seen that the majority of borrowers do not mention the F and H plan when discussing reasons for changes they have made in their farming practices and that the plan apparently has rather low salience in their minds, particularly in the South. There is evidence, however, that the plan is a more important motivating factor than its low salience would indicate. Borrowers who have an adequate knowledge of the plan in detail are those who most frequently have made changes in their farming methods while those with only fair or inadequate knowledge of the plan have somewhat less tendency to change. These relationships are illustrated below:

	Adequate knowledge of plan (percent)	*Fair or inadequate knowledge of plan (percent)*
Midwest:		
Changed way of farming	82	69
Did not change way of farming	18	30
Not ascertained	0	1
	100	100
Number of cases	136	138
South:		
Changed way of farming	89	82
Did not change way of farming	9	18
Not ascertained	2	0
	100	100
Number of cases	53	237

Borrowers who say the F and H plan has affected the way they run their farms are more apt to be also those who have changed their farming practices

In both the South and Midwest, borrowers who say they would not have run their farms any differently if they had not had F and H plans are more frequently also those who have made no changes in their farming practices. This relation is most evident in the Midwest where 87 percent of those who say they would have run their farms differently if they had not had F and H plans also made changes in their farming methods as contrasted with 64 percent of those who say the F and H plan has made no difference in the way they farm but who nevertheless did change their farming practices.

Half the borrowers say the F and H plan helps them

Approximately two-thirds of the clients in both areas say that the plan is a help to them, either unqualifiedly or with some reservations. Almost one-fourth of those in the Midwest regard the plan as a bother but only about half as many Southerners have this attitude. The foregoing facts are revealed by the following tabulations:

Attitude toward plan:	Midwest (percent)	South (percent)
Plan is a help	57	56
Some of the plan is a help; some is not	11	4
Plan is a bother	23	12
Don't know	1	2
Say they never had a plan	2	13
Say they have no plan now	5	12
Not ascertained	1	1
	100	100

In both Midwest and South the leading reason given for looking on the plan as helpful is that it provides a goal toward which to work. Most frequently mentioned cause for thinking the plan is a bother or a nuisance is the belief that detailed planning of farm operations is impractical because of the unpredictable nature of weather, pests, disease, market prices, and similar exigencies. Reasons for attitudes toward plans are:

Reasons plan is a help:	Midwest (percent)	South (percent)
Provides a goal toward which to work	28	24
Promotes more business-like procedure	22	8
Promotes scientific farming practices	9	7
Provides record of past activities	5	2
Encourages crop diversification and varied income sources	4	4
Involves availability of expert supervision and technical advice	4	6
Promotes production of food for home consumption	1	12
Promotes better family health	0	1
Reasons plan is a bother:		
Detailed planning of farm operations is impractical	22	7
Confident of own farming practices	3	6
Involves too much supervision and interference	3	1
Say they never had a plan	2	13
Say they have no plan now	5	12
Miscellaneous reasons	2	1
No reasons given	12	12

Most borrowers are aware only of the annual F and H plan

We have previously seen in the discussion of salience of the farm and home plan that the long-time version was hardly ever mentioned spontaneously. As might be expected, when borrowers were questioned directly about a long-range plan more of them recalled it. Nevertheless, half those in the Midwest and two-thirds of the Southerners say they have not worked out any plan other than the annual one.

Half the borrowers give no evidence of disregard of their F and H plans

As an experiment, the analysts were asked to look for evidence of disregard of F and H plans on the part of borrowers. There were many places in the interviews where such evidence had an opportunity to occur and it is felt that the resulting over-all rating is reasonably accurate. This shows that about two-fifths of the Midwesterners and one-fourth of the Southern clients manifested some degree of disregard of their F and H plans. Approximately half in both regions gave no evidence at all that their farm and home plans when once made were disregarded.

Supervision (Other Than Farm and Home Planning)

Most borrowers say the supervisor is helpful to them

Supervision is more favorably regarded in the Midwest than in the South. Almost four-fifths of the Midwestern borrowers say the supervisor is helpful to them while only three-fifths of those in the South give unqualified approval. More than a third of the Southern clients indicate that the supervisor is not a help to them and they could get along just as well without him. Less than half as many Midwesterners exhibit this unfavorable attitude toward supervision.

	Midwest (per-cent)	*South (per-cent)*
Reasons supervisor is a help:		
Is a source of technical knowledge and advice	69	56
Has administrative skills	16	13
Aids in making out farm and home plans	10	10
Has a friendly, counselling personality	10	5
Aids in helping borrower follow farm and home plans	7	4
Reasons supervisor is not a help:		
Borrowers feel competent, need no supervision	8	30
Supervisor is too theoretical, not practical	4	3
Supervisor makes too few calls	4	6
No reasons given	4	4

Most of those who regard supervision unfavorably say that they feel competent themselves and need no supervision. One borrower said:

> I've farmed all my life and I know how I'm going to run this farm without anyone telling me.

Borrowers who believe the supervisor is helpful give as their main reason the fact that he is a source of technical knowledge and advice. The following comments reflect this point of view:

> As far as I'm concerned, it's nice to go in and find out things you want to know—and I'm an oldtimer. If it helps me that way, just imagine how it would help if I was just starting in. He's been a great help to me.
>
> It's a guide to me to keep my feet on the ground. I can get something from him I can depend on when I don't have anyone else I can get it from.

Very few borrowers actually dislike the supervisors' visits

A considerable majority of borrowers say definitely they like to have the supervisor call on them. About one-fifth express an attitude of indifference, "it's all right, he can come out if he wants to." Only an extremely small proportion actively dislike for their supervisor to come to see them.

> I like for him to come around; I'm glad to see him. Sometimes I don't think he comes often enough.

Frequency of supervisor visits is related to attitudes toward supervision

In both Midwest and South the group of borrowers who are visited three or more times a year contains a larger proportion of those who say supervision is helpful than does the group visited twice or fewer times a year. Conversely, the group which is visited twice or fewer times a year contains a proportionately larger number of borrowers who regard supervision as not helpful than does the group which is visited more often. It would thus seem that fairly frequent visits by the supervisor may foster the growth of favorable attitudes toward supervision among the borrowers.

Most borrowers suggest no changes in the tenant-purchase program

Slightly more than half the Midwest and about two-thirds of the Southern clients have no suggestions to offer regarding changes in the TP program. Those changes which were suggested have been classified as changes in supervision, financial procedure, and of a general character.

The leading supervisory change suggested is a criticism of the restraint exercised by the supervisor on the borrower's expenditures and his plans to expand his farming activities. The feeling that this restraint should be relaxed is more prevalent in the South than in the Midwest.

Midwesterners who suggest changes would like to see the amount of TP funds allocated to their states increased and for the present loan limitation on land purchases to be raised. These changes apparently are not so important to Southerners.

Among changes of a general nature, Southerners would like to see less emphasis placed on standard FSA type houses and buildings put up by private contractors. Midwesterners would like to speed up the technical procedure of obtaining loans by eliminating details.

Attitude of Borrowers' Wives

Most housewives share with their husbands the responsibility for making the annual farm and home plan, especially in the Midwest. The home production and preservation of food is the part of the plan which most interests most of the women, particularly in the South. This is also the aspect of the plan singled out as most helpful to housewives. The plan seems to have less effect in promoting changes in housekeeping practices in the Midwest than in the South since 70 percent of the Midwest as against 36 percent of the Southern wives say the plan has not affected the way they run their homes. About twice as many Midwestern as Southern women think of some aspect of the F and H plan as a nuisance but the actual proportion is small. Estimation of living expenses in the Midwest and record-keeping in the South are those parts of the plan most often regarded as useless.

About twice as many Southern as Midwestern wives have some home supervision. Of those who do, most say the supervision is helpful, giving the availability of the supervisor's technical knowledge and advice as the main reason. Most of the women like to have the supervisor visit them, even many of those who say she is not helpful. Not many women offer suggestions about changes in supervision but, of those who do, twice as many are in the Midwest as in the South. Most frequently mentioned change is to have the supervisor visit more often. Women who receive frequent supervisory visits are likely also to be those who regard supervision as helpful and who say the F and H plan has affected their housekeeping practices. Wives who think supervision is not helpful are also apt to be those who say the F and H plan has made no difference in the way they run their homes.

Attitude of Supervisors

The great majority of supervisors are in favor of the TP program, believe their clients are benefiting, and say the program is well worth its cost. Most of them would like to see changes made in its operation, especially a raise in the limiting price of land.[4] According to supervisors, main effects

[4] Price limit in effect when survey was made has been removed. See discussion of Loan Limits, ch. VIII.

of the program on TP families have been an increase in morale, longer schooling for children, and increased participation in community life. Most important community effects have been the spread of TP farm and home practices among nonborrowing families and a rise in the average community standard of living. The F and H plan is not prominent in the thinking of one-fourth of the supervisors when they describe in detail how the program works and the same proportion indicate the plan is not mutually developed with the borrower. Three-fourths of the supervisors say they have trouble working out F and H plans with their borrowers. Chief troubles, especially in the South, result from the inhibitory effect of old, established patterns of farming and living, together with a lack of interest in planning. Most supervisors believe borrowers like the F and H plan and find it helpful but do not feel borrowers would try to carry out their plans in the absence of supervision. In the opinion of supervisors, the promotion of scientific farming practices is the most helpful aspect of the F and H plan while the estimation of living costs is the least helpful. Three-fourths of the supervisors believe that borrowers follow out their plans.

Nearly all supervisors think that borrowers like supervision. Supervisors say the main reason borrowers like supervision is the availability of technical advice and sympathetic guidance. Very few supervisors believe there should be any change in the amount of authority exercised by a supervisor. Supervisors in the South display a more disparaging attitude toward their borrowers than do those in the Midwest. About one in six supervisors gives evidence of an "autocratic" attitude toward clients and this attitude is reflected in the borrower's own attitude toward supervision. Borrowers in "autocratic" counties tend to regard supervision as not helpful more often than do those in counties where the supervisors are not autocratically minded. Conversely, those in these latter counties are more likely to feel that supervisor is a help than those in the "boss-man" counties. It thus seems quite likely that the presence of conscious or unconscious attitudes which may be classed as "autocratic" among supervisors are connected with adverse attitudes among borrowers toward both the F and H plan and supervision itself.

Sample Interview With Borrower Who Favored Plans and Supervision [5]

How do you feel about the TP program?

Well, I tell you, if I explain it they may not like the way I say it, but I could not give a man—a man could not give me $100 against $50 for it. I would rather have it than anything because I have no big problems coming before me now and I am going better than I ever did since I've been farming for the satisfaction of my family and me . . .

[5] The sample interview quoted under this heading is one of four such interviews reported in appendix II of the BAE report on its survey of 683 farm ownership borrowers and 631 borrowers' wives in the States of Iowa, Missouri, Minnesota, Wisconsin, Alabama, Arkansas, Georgia, and Mississippi. The foreword to this appendix said: "Appendix II of this report is here published separately to acquaint readers of the main report somewhat with the method of interviewing and the kinds of answers given by both borrowers and supervisors to the questions asked in the survey. References to specific localities or persons have been eliminated from these interviews but otherwise they are verbatim. Many grammatical errors and awkward sentence constructions will be noticed but it should be borne in mind that this is characteristic of nearly all conversations. In oral form these attract little notice but when reduced to a written record they become much more obvious. The interviews are presented in this manner in order to show exactly the kind of material with which the analysts worked in assembling the final report."

I understand you are buying your farm with a tenant-purchase loan from the Farm Security Administration—how is it working out in your case?

I haven't seen anything that has worked out wrong for me on this program; they have not worried me, they haven't done anything but advise me to make a living, raise my living, and keep a record of what I am doing the best I can. They hold a farmers' meeting to let them (the borrowers) tell how they have improved by buying land through the Government . . .

Besides this tenant-purchase loan to buy your farm, have you ever borrowed any other money through the Farm Security county supervisor?

They furnish us just like a landlord if we need it.

What kinds of things can you use these loans for?

Buy fertilizer and mule feed if you need any.

Since you bought your own place, have you made any changes in the way you farm?

Yes, I farm a little different than before, I plant more foodstuff, raise more of different things, raise more cows, and keep more cows for my own use and live off them.

How did you come to do that?

Because I needed them and when I did not have this land I did not have that chance and the landlord wanted me to sell my cows if he wanted what they would bring on the debts I owed him. Then I raised as many hogs as I want to now and when I was renting I was allowed on them, could just have so many, and now I can raise enough meat to run me until meat comes again—they (FSA people) want to see your smoke house dark with meat.

Have you made any other changes?

No more than I try to keep up my land; if I am hoeing cotton and I see a ditch is starting I stop right then and fix it and when I was renting I could not do that until the end of the year.

How did you happen to make these changes?

Because this is my place now and I want to keep it improved.

When you first bought your farm, did you work out a farming plan with the county supervisor?

Well, there has been a man around here and I made an agreement with him to put out kudzu and plan sericea and all such things as that and I am going to try to carry that all out—things like filling these ditches you see here with kudzu.

Has the county supervisor ever met with you and worked out a special plan to help you run your farm?

There hasn't been but one plan and the soil man fixed that one. (Did the FSA people figure a plan with you?) Yes, that is right they did, for operating the farm and for living, they shore did.

What all does your farm and home management plan deal with?

We did not plan anything more than to raise more than what I had been, can more and we are doing that. I left my wife canning this morning, she has 150 jars canned already.

What other things does the plan cover?

That is about all it covers, our men (FSA supervisors) have asked us to do just about that, except the one man I told you about and what he asked me to do I have 5 years to do it, he didn't ask me to do all that in 1 year and farm, too, but gave me 5 years.

Do you feel that the plan is a help to you or is it a bother?

You could not get a better plan than they give you if you made it in the blacksmith shop, if you just follow it, that is how I feel about it.

Why is that?

Because the plan they offered me and what I have done have been lots of help to me and my family and it helps take care of my business because I'm not out hunting something to buy, I raise it and have it here. We threw away our life in the past without having somebody to advise us, show us light and put us on the right road (referring to FSA people).

How long a time is this plan for?

The plan is for a year.

Does any of it deal with trying to plan ahead what your family living expenses will be this year?

Yes.

Can you tell me in a general way how you did that?

He comes along about February first and asks what is my plan for another year and I tell him I do not need any help (hired help) and maybe no clothes and so they do not set aside anything for that and I tell him I am going to plan so much for cash crops and so much for living and I am going to cut out so much of this borrowing and he says the way to do that is cut out so much of this row cropping and raise more feed and food and try to live at home. I got a mighty good man that looks over my business and he is as smooth as a dollar bill.

Does any of the plan deal with trying to plan ahead how much money you will take in during the year?

Yes.

How do you go about that?

If you go out and work somewhere else you get a record book you put that down in, just like if children work out we put that down and if we sell watermelons we set that down in the book and any hogs we sell. Just like I got a letter the other day from my supervisor lady and she says get my record book in good shape because it has got to go in in December.

When you plan ahead what your income will probably be, does that affect your plans for your family living expenses for the year?

No; they put that in if we need it; if you make more than your expenses then that all goes on a payment on the farm.

Does it affect your plans for making a payment on your loan during the year?

No, sir; all you make over expenses goes on the farm.

Does any of the plan deal with planning ahead what your farm operating expenses will be for the year?

Yes, sir.

Is there anything in the plan about buying furniture and things for the house like a stove, refrigerator, and so forth, during the year?

No.

Is there anything in your plan about your family's health care?

Yes.

What does that cover?

That covers doctor bills, two visits a year, and medicine.

Does the plan have anything in it about buying livestock or farm machinery or extra buildings?

No, sir; that has never been mentioned, because I had livestock when I bought this place and have not bought any more and no machinery either.

Is it a part of your plan each year to keep a record of all your expenses and all the money you take in?

Yes.

Are the records helpful to you or not?

Yes; I reckon that is.

How is that?

It lets me know what I am using and what it's for; lots of things I bought when I was renting I did not know what I was using them for—the record the landlord showed me showed how much I owed, but it did not show what it was for, but the record book I keep shows me that.

How do you feel about the plan you have this year?

I do not see any mistakes about the plan I have this year and I feel better off with one of them; I have learned this—a man has got to learn to do with what he can raise. You raise what you need and if you do that you will not need anything from town. A farmer that farms like I have been farming and did not make but two bales of cotton would not suffer any because I am not buying anything to live on. We got three plows here and when I used to rent the landlord furnished me $15 per plow per month and no matter how much I made I could not pay all the debts I had and now I am running these three plows on $15 a month, that is all I need; how come I can fall that far back (run on so much less cash) is because I raise it here and don't have to buy it; I have plenty and just use $15 for the family and I used to have to have $15 for each plow and then we lived hard.

How did you feel about this plan idea the first year you had one?

That first year with a plan is what made me open my eyes and see so much better than I had seen before, I did better having that plan. If a man runs me (furnishes credit for living) and sends me a due bill without saying what it is for, I am doing no good; I would not give a man a cigarette paper for a due bill saying how much I owe without saying what it is for.

Do you think you would have run your farm any differently if you had not had these farm and home plans?

Yes, sir; I would have farmed differently without a plan.

Why is that?

Because I had been raised the way I was; without a plan this year I would have just had a little dab of this and a little dab of that, but I planned and planted an acre of watermelons and I haven't got any money from the (FSA) office since June; I hauled watermelons and got from $10 to $7 and $8 a day that way and I lived on that. If I had been renting, the landlord would have wanted that acre of land in cotton, and I would have had to borrow all the summer to have money to live on.

Do you think having a plan like this helps you run your farm any better than if you didn't have such a plan?

Oh, yes, sir; we think so much of the plan that we ask them to come out and give us a plan to go by every year.

Did you use your plan any differently the first year you had it than you do now?

We use it better now because we have improved, we know more about it now, how to plan one. We can say what we are going to do when they come to see us in February and leave space for crop plans.

What parts of the plan have been the most help to you?

Our food plan that they advise us to go by is of most help because if we go by their plan we will have a living at home, the biggest plan they have

is advising us to live at home and not have so much cotton, just make enough cotton to make the payments on the farm.

Is there anything about the plan that seems like a nuisance to you and of no use?

No.

Have you ever worked out any plan with your supervisor besides these one year plans?

No; we just make plans for one year at the time, they come every year and we make a plan for that year.

Did you ever work out a long-range plan for your farm with your supervisor?

No.

How many farm supervisors have you had since you have been on the tenant-purchase program?

One.

Is the supervisor a help to you or could you get along just as well without him?

We could not get along without the supervisors.

Why is that?

He looks after things for us while we are working. He comes to see us and if we are needing we get a man to take care of us. We could not do that with our Government way yonder in Washington, we got to have a Government man here close by.

What does the supervisor do when he comes to see you?

He comes out and suppose I did not know what to do with this ditch, and he would tell me to put kudzu here and that will fill it up. If a terrace is breaking he says the trouble is so and so and tells you what to do with it. The Government can't beat the supervisor we got. If they do not come to see me I think something is wrong, they are dissatisfied with me. I wish they really knew what we did think of them, him and the supervisor lady too. He once told me to poison my cotton again and said if I did it I would be swapping $5 bills for $10 and I did that and made more cotton.

Are there any changes you would like to see made in the way the supervisor does things?

No.

Do you plan on leaving this farm to members of your family as part of their inheritance?

Yes; if I have paid for it it goes to my wife, and if I haven't paid for it my children get it.

Are you planning to stay on this farm the rest of your life?

Yes.

Are you planning any improvements to your farm over a long period of time?

Yes.

What are they?

Going to improve my pasture every year. I will continue to try to make a headway in every way I can and stay here and advise other people to get in the Government plan and buy land with the Government and go to work and make a living. These folks that haven't bought land from the Government say you will never pay for the farm because the Government isn't going to let you pay for it, lots says you can't pay for the land you are buying through the Government. (Why do they say that?) They say when you buy this land from the Government they furnish so much

money to build buildings with, they tear everything down and build new, and your buildings cost so much money that they say you can never pay for it and that is what the Government fixes it that way for.

Are they a part of your farm and home plan?

Yes, sir.

How do you feel about your farm here—are you pleased with it or are you sorry now that you bought it?

I am pleased with my farm. I am as pleased with it as I am with my wife, it satisfied me just as well as my wife does.

Why is that?

I like it because we get a good outlet and we got plenty running water on it, three running branches, and I get plenty timber for firewood and I am well prepared for satisfaction for a man that wants to go ahead and live good.

How many years do you expect to take altogether to pay off your tenant purchase loan?

I plan to pay for it in 10 years from now.

Are there any changes you would like to see made in the tenant purchase program?

Just one thing: the land cost me $1,450 and the buildings cost me $700 and that is all I have used of the $3,999 that I borrowed, and the rest is up there yet. I have had that money laying up there for 4 years and I am paying interest on it and the Government hasn't turned loose enough material to build me a house, so I would have liked to send that money back and save the interest I paid. I am not able to pay interest on that money.

Are there any changes you would like to see made in these yearly farm and home management plans?

No.

Who do you think is better off—a man who owns a farm like this or a man who rents a farm the same size?

A man that is trying to own is better off than a renter.

Why is that?

Because he can command a chance to have something if he hasn't got anything and the renter pays enough rent to pay for a farm. I paid this man (person who owned the place before FSA bought) enough rent on this farm in 5 years at present cotton prices to own it. I paid him 5 bales a year, or 25 bales in 5 years. Another thing, if I put out a fruit tree I know I am going to get the benefit of the fruit. I just put in an order for $30 worth of fruit trees and if I was renting, I would not do that, I couldn't because I might never get any benefit from them.

Interview With Borrower Who Opposed Plans and Supervision [6]

Do you think you would have run your farm any differently if you had not had these farm and home plans?

No, I don't think so.

Why is that?

Well, I always farmed the best I could under the circumstances anyway.

[6] The interview quoted under this heading is one of four such interviews reported in appendix II of BAE report on its survey of 683 farm ownership borrowers and 631 borrower's wives in States of Iowa, Missouri, Minnesota, Wisconsin, Alabama, Arkansas, Georgia, and Mississippi. Only those portions of this interview are quoted which reflect disapproval of planning and supervision.

Do you think having a plan like this helps you run your farm any better than if you didn't have such a plan?

I wouldn't say it would. That's about the same as the other. Just do the best I can. We don't pay no attention to it as far as that's concerned.

Did you use your plan any differently the first year you had it than you do now?

No, I don't think so.

What parts of the plan have been the most help to you?

Well, I don't know. I couldn't say any of them, any more than keeping records for income tax and we kept records anyway. We kept what we sold and bought, but never the household expenses. Just the major things.

Is there anything about the plan that seems like a nuisance to you and of no use?

Well, this here planning ahead for the future as far as that's concerned. I figure that's more or less of a nuisance. I can't figure where there'd be any great benefit out of it. I don't like to figure at what I'm going to get and then not get it.

Is the supervisor a help to you or could you get along just as well without him?

I believe we could get along just as well without him. We never see him anyway. He's been here twice since we've been here and that's 4 years. The last time he was here was when I had some cattle to sell. But you have to have a head somewhere.

What does the supervisor do when he comes to see you?

Smokes ten cigarettes and visits.

How do you feel about having him come to see you?

I like to have him come out. I like to have anyone come and visit as far as that's concerned.

Are there any changes you would like to see made in the tenant-purchase program?

The only change I could see is that more of them could get it. (Anything about the whole program?) Well, I don't know. The set-up is all right as far as I can see, any more than it looks foolish to estimate what you're going to get. But that's only a small part, but in the major things the set-up is all right as far as I can see.

Do you think you would run your home any differently if you didn't have this plan? [7]

Oh, I don't believe so.

How is that?

Well, I'd try to can and everything like that, anyway. I don't think they bother a person at all that way.

What parts are the most help to you?

Oh, well I don't know. There really aren't any. I don't see it's too helpful in anything, not in the house. That part doesn't make any difference in the income tax, anyway.

What parts of the plan are easiest for you to follow?

There really isn't any plan that way to follow. We've never paid any attention to it. For us, it's just a matter of form. In our case, there really isn't anything to follow.

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[7] This question and the four succeeding questions were addressed to the borrower's wife.

Is she (home supervisor) a help to you, or could you get along just as well without her?

As far as I'm concerned, I could get along without her. She has some pamphlets and things but you could get those in the Farm Bureau office.

Borrowers Speak for Themselves

The following memorandum explains the source of the succeeding direct quotations from individual farm-ownership borrowers and the circumstances under which they were obtained:

To: Paul V. Maris, Farm Ownership Division, Farm Security Administration.
From: Forrest Clements, Division of Program Surveys, Bureau of Agricultural Economics.
Subject: Direct quotations from interviews with TP borrowers and FSA county supervisors.

You have already been furnished with copies of the complete quantitative report based on our survey of the tenant-purchase program in the South and Midwest. In order to afford further insight into the feelings of the majority of borrowers toward this program and of supervisors concerning its effects on TP families and on their communities, we are submitting a large series of direct quotations from the interviews . . .

Borrowers were not directly questioned about their general attitudes toward the Farm Security Administration or its tenant-purchase program. During the course of interviewing, however, most of them spontaneously expressed themselves on these points. All of the quotations listed below indicate favorable attitudes. Only about 2 percent of the borrowers expressed over-all unfavorable attitudes and you have already been furnished with typical quotations illustrating this small minority point of view. It should be kept in mind that the quotations are spontaneous expressions of feeling and not responses to direct questions.

* * *

We would still be moving from place to place if it hadn't been for tenant purchase. We would have had no roots. It is a wonderful program for poor people.

* * *

When we rented we had to change schools each year. That was horrid for the children.

* * *

This way I'll own my own property and not be working for somebody else. I'm a good American and that's the American way—doing things for yourself.

* * *

I've taken notice of lots of renters. They make more cotton than we do but they don't make their livestock and food and feed like we do because their landlords won't let them. We are a lot better off and have a better living.

* * *

This is about the finest thing ever was for the colored man. We never had anything that would give us a chance before. And my supervisor is the finest fellow ever put a hat on his head.

* * *

When a man is working for his ownself it makes a lot of difference to his self-respect!

* * *

When we get it paid for we will have a home and something to leave our boys after we are gone.

I know two men living on the ridge road that married sisters. Both are hard workers and jealous of each other, forever trying to beat the other man making a crop. One bought (TP) the same year I did and in a few years will own his place and all he makes and produces. His brother that's still rentin' is no better off now than he was several years ago. He never will be so long as he keeps on rentin'.

* * *

One thing it has done around here, it has almost destroyed sharecropping in these hills. That's a mighty good thing, I say.

* * *

It's O. K. When we first started, it was pretty hard to make a go of it but we kept plugging and now things are going fine.

* * *

It's the only thing for a one-gallus farmer like me.

* * *

Folks like us never got no chance before but now we've got hope and can hold our heads up. After all these years, seems like our prayers are being answered. I tell you, mister, we thank Him every day of our lives.

* * *

Comments by Supervisors on the Effects of the TP Program on the Communities

Until we had the TP (farm ownership) program there was very little community life in this county. It consisted of landlords and transient tenants. Now these TP families are permanent citizens; they are building churches and seeing to it they have schools and the conveniences electricity brings.

* * *

The program has taught people all over the county. A few years ago you hardly ever saw a pressure cooker in these farm houses. Now the farm women find out what the FSA women are doing with canning and they want to do the same. The housing has been improved in the county and the farm buildings, too. They copy our FSA barns, for instance.

* * *

TP farms have increased the value of tax assessments in the country. In our own county there has been a $200,000 increase which adds more money to the county treasury and helps the whole county.

* * *

The banks even look to FSA to take those farmers they can't take. I believe maybe they are beginning to think they should have some similar loan program. One banker said to me recently, "I think it's a wonderful program and if you're ever out of a job, come on over and maybe we can work out something similar."

* * *

It has had a stabilizing effect on the price of land in some communities. The rest of the people don't go so crazy in buying farms when they see what these FSA farms sold for.

* * *

I know one wealthy merchant who was at one time a bitter enemy of FSA. One day I was in his store and he came up and introduced himself. He said, "I've always thought the Government was wasting money on this pro-

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gram but (naming a certain district) you have put people out there who are trading with me. That whole place out there was rented for years and I never got a cent off it down here. Now those TP people trade here with us merchants, their kids go to the school, and it's helped the whole community."

* * *

It has helped the soil conservation program and built up average or below average farms into better farms. There have been community leaders developed from the program. It's brought ideas before the public by showing the benefits of planning and finding out what enterprises pay and what don't.

* * *

I could quote our local preacher who is sold on the program because it gained him a stable congregation for the first time.

* * *

General Summary

Fewer than 1 in 26 borrowers express dissatisfaction with the TP program. More than 9 in 10 are satisfied with their purchases.

Ninety percent of borrowers are on or ahead of schedule in their loan payments.

One in every two Midwest purchasers; four in every five Southern clients have borrowed funds from Rural Rehabilitation in addition to their tenant-purchase loan.

Only 25 percent of Midwest and 7 percent of Southern borrowers spontaneously mention the farm and home management plan in discussing changes they have made in their farm and living practices.

The F and H plan is adequately understood by less than half of the Midwest, by about one in seven Southern borrowers.

Few borrowers are aware of the long-time (farm and home) plan.

Those borrowers with only fair or inadequate knowledge of the F and H plan tend to disregard it.

Three-fourths of the Midwest and four-fifths of the Southern borrowers have changed their farming methods since entering the TP program.

Improved methods of soil cultivation is the most frequent change in the Midwest; increased use of livestock is change most often mentioned in the South.

Most borrowers say supervision is helpful and like for the supervisor to call upon them.

Borrowers who favor supervision also tend to be those who give no evidence of disregard for their F and H plans, who think the plan is helpful and who attribute changes in their farming operations to influence of the plan.

Borrowers who receive frequent supervisory visits tend also to be those who regard supervision as helpful, who have changed their farming practices since becoming TP clients and who give no evidence of disregard for their F and H plans.

In the Midwest 70 percent and in the South 36 percent of the borrowers' wives say the F and H plan has not influenced the way they run their homes.

Home production and preservation of food is the most helpful aspect of the F and H plan to wives, especially in the South.

Most wives say the home supervisor is helpful and like for her to visit.

The F and H plan is not prominent in the thinking of 25 percent of supervisors when they describe in detail how the TP program works in their localities.

One supervisor in four indicates that the F and H plan is not mutually developed between borrower and supervisor.

Three-fourths of the supervisors believe borrowers follow their F and H plans but nearly half the borrowers either give evidence of some disregard for their plans or say they have no plans.

Most supervisors believe borrowers think their F and H plans are helpful and that they like the plan idea.

Nearly all supervisors think borrowers like supervision. So they do in the majority of cases but not to the extent supervisors believe.

More Southern supervisors give evidence of some degree of disesteem of their borrowers than is the case in the Midwest.

One in six supervisors has an autocratic or "boss-man" attitude toward borrowers.

Borrowers in counties with autocratic type supervisors tend to regard supervision as not helpful, especially in the South.

FHA Comment on BAE Survey

The BAE report reveals defects in FHA supervision as it was being carried on back in 1945. It also reveals actual and potential elements of strength in supervision. No doubt some superficial planning and ineffective supervision is still done despite the great efforts put forth to vitalize planning and supervision.

Following the issuance of the report Administrator Dillard B. Lasseter said:

> It tells what another agency, experienced in getting at the facts, has found out about the attitude of a selected but typical sample of FO borrowers and FSA supervisors. The findings are significant. We may rightly take courage from those that are favorable, but we can ill afford to ignore the unfavorable implications. There is enough on the favorable side to confirm our faith in the essential soundness and value of the farm-ownership program:
>
> 1. Fewer than 1 in 25 borrowers express dissatisfaction with the FO program.
> 2. More than 9 in 10 are satisfied with their purchases and 95 percent plan long-time improvements on their farms.
> 3. More than three-fourths of the borrowers expect to spend their lives on their farms and to leave them to their children.
> 4. Most borrowers have changed their farm and home practices for the better.
> 5. There is encouraging recognition on the part of the borrower of the value of planning and its relation to progress.
> 6. The majority of borrowers welcome visits by supervisors and appreciate their assistance.
>
> The underlying causes of unfavorable reactions among borrowers can be remedied:
>
> 1. When an applicant understands what is involved in teaming up with FSA before he gets a loan, "The First Step in the Rehabilitation

Process" will have been properly taken and many future difficulties will have been avoided.

2. When farm and home planning is properly done there will be *awareness of plans,* and no doubt as to their value.

3. When records are properly summarized and interpreted, those who keep them will realize that their efforts have been well rewarded.

4. When supervisors have a friendly and helpful attitude toward borrowers, their visits will be welcome and their assistance will be appreciated. Borrowers are quick to recognize and resent what the report calls a "boss-man" attitude on the part of supervisors. We must completely eliminate it from our organization.

By observing the policies and carrying out the practices for which Farm Security stands, we will further strengthen the good features of the FO program and at the same time we will correct the conditions that are now affecting it adversely.

Chapter XIV

RECORD OF BORROWERS' PROGRESS

Borrower and His Wife Tell Their Own Progress Story

In 1943 we were fortunate to have our application for a FHA loan approved and on October 1 of that year we moved to our new home. Each year since then we feel we have made progress.

Owning the land we till has enabled us to put into practice soil conservation measures that would not have been possible if we had been renting. We have reclaimed 35 acres of quack (grass) land and have raised two crops on it. We have done extensive ditching and leveling of fields, draining water from numerous small pot holes into one large slough. We have seeded alfalfa with grain two successive years into portions of our fields and plan to continue this practice of building up the soil and at the same time making good pasture and good alfalfa hay for our cattle.

We raise a large garden each year, canning all the vegetables that are not eaten fresh. We have a strawberry bed which should yield abundantly this season. This spring we plan to fence our house yard and transplant a number of trees from the windbreak planting to the lawn.

The first year we lived on our farm we had a windbreak planted which is now large enough to provide some shelter and protection especially for fruit trees which we plan to set out in the spring of 1949.

We feel that owning our own farm has contributed immeasurably to the welfare of our family as a whole. We appreciate a great deal our wonderful drinking water we get from our deep well. When we rented we lived for 8 years on a farm where the well water was not fit for drinking. The land was poor and the returns, after landlord had his share, were scant indeed.

When we first moved on our place we made the improvements that were designated by the engineer. These were necessarily limited as it was during the war when material was scarce and wages high. We are now waiting for REA and when electricity becomes available we plan many small improvements including running water.

During all of this time FHA supervision has helped us in many ways. Each year our local FHA supervisor, Mr. Mike Schmidt, has an annual meeting of all FHA patrons in the county to discuss their problems and study charts prepared by Mr. Schmidt showing what the group as a whole has accomplished the past year. These discussions and comparisons always make us resolve to do better the coming year.

Knowing that our home is our own and that the variable payment plan makes it possible for us to pay more the years our income is large and less when and if bad times come gives us a feeling of security. We do not fear losing our farm as we saw our parents lose theirs in 1930 . . .

There are many ways to measure the progress of farm-ownership borrowers. The above letter from Mr. and Mrs. Raymond G. Blair, of Lily, S. Dak., tells their story of reclaimed land, shelter belts, live-at-home program, and all-around good-farm management and home-management prac-

tices that were stepping stones from handicaps and insecurity on a rented farm to well-rounded family and community life on their own farm.

The Blairs all attend church and Sunday School regularly. They are all members of the Farmer's Union. Mr. Blair is a stockholder in three cooperatives. Four times he has been a delegate to State Farmer's Union conventions. Mrs. Blair helped organize a community Extension Club and is educational director in her Farmer's Union local. Two sons and two daughters have made and are making fine scholastic records. They have participated in 4–H Clubs, athletics, and recreational activities.

Short Quotes That Reveal Progress

The Farmers Home Administration receives many letters from its paid-up borrowers similar to the Blair letter. They often contain statements about the achievements and progress of the writers which are more revealing than statistical tabulations or financial summaries. The following are typical examples:

"We started with an RR (Rural Rehabilitation) loan in 1936. At that time we bought only the barest necessities—a walking plow, cultivator, disc-harrow, wagon, team of horses, couple of cows and a sow. That year the drought brought rather hard times and threw us behind on our payments. It took us 6 years to repay our loan which should have been paid in 5 years. Meanwhile the tenant-purchase (farm-ownership) plan went into effect. . . . We sent in an application the second time before we were approved by the (county) committee. We have paid for our farm, had a good living while doing it, and have a family of four children all under high-school age, still young enough to enjoy our home and the security it brings to us." Elmer and Reba Owen, Lamar, Mo.

* * *

"We were fortunate in getting a good farm at a reasonable price. We had both lived on farms all our lives. Farming was not new to us. We made a plan the first of the year as was expected of us and sometimes hard to do, then tried to follow it and do better than planned. We had to do without a lot of things that we should like to have but could do without. We also tried to live off what we raised on the farm, therefore, keeping living expenses down. With our efficient supervisor and home supervisor's help, we completed our 40-year, farm-ownership program within 10 years." Mr. and Mrs. Edward Groth, Froeburg, Ill.

* * *

"We have lived through some very prosperous years, and they have been helpful in paying off our loan, but we feel that we are well equipped now for whatever comes, good years or bad." Mr. and Mrs. Maynard Menefee, Dallas Center, Iowa.

* * *

"I lived on rented land before 1943. I have paid enough rent to buy a couple of farms. My father lived to be 78 years old, but never did secure enough to own a home. He lived on rented land all his life. When I borrowed the money to buy my farm in 1943, I was worth about $500. Now I think I could sell my things for $15,000." M. C. Smith, Lincolnton, N. C.

* * *

"In 1941 you gave me a chance to buy a farm and in 1942 I moved on it and ever since then we have had plenty to eat and plenty of clothes to wear

and some money to spend. And we get along better than we ever have before. While we were paying your money back we had a good house to live in, better than ever before." Lucious Rogers, Quitman, Ga.

* * *

"My wife and three boys and I came here in 1941 with nothing. We were $800 in debt and had three old Jersey cows. Now we have 19 head of good cows and money in the bank and a good home. I gave $30 an acre for this farm in 1941 and last fall was offered $125 an acre for it but I did not buy it to speculate on. I bought it for a home." C. H. Reynolds, Foard City, Tex.

* * *

"We paid our loan off 34 years ahead of schedule because of higher than normal prices. Our payments were made entirely from income from our farm. At the same time we were building up the fertility of our soil and adding improvements to our buildings." Lewis Lillich, Cedarville, Ohio.

* * *

"Six years ago we were renters owning a pair of horses and a few plow tools. Today we own our farm of 159 acres, a new tractor and equipment, a new truck; also a good-sized bunch of hogs and cattle and a good team of mules." Mr. and Mrs. Sam Longmires, Jackson, Tenn.

The Over-All Balance Sheet

But statistics are important, too. As of June 30, 1949, a total of $345,625,707 [1] had been loaned to 62,044 [2] farm-ownership borrowers. Of the principal, 49.9 percent or $162,653,177 had been repaid. Interest had been paid on outstanding balances in the amount of $40,567,203. These facts are summarized in table 22 below:

TABLE 22.—*Total direct farm ownership loans, payments and principal balance, cumulative through June 30, 1949*

Total amount loaned		$354, 625, 707
Cumulative payments:		
Regular payments	$155, 277, 951	
Extra payments including refunds	47, 942, 429	
Total	203, 220, 380	
Less interest payments	40, 567, 203	
Principal payments		162, 653, 177
Principal balance outstanding		191, 972, 530
Total number of borrowers (estimated)		62, 044

[1] The amount loaned does not include insured loans made by banks, insurance companies or other private lenders totaling $5,192,562 as of June 30, 1949. Except as to source and a requirement that borrowers make a 10-percent down payment from their own unborrowed funds, these loans are identical in all essential respects to the farm-ownership loans made from Federal funds. They are excluded from the above totals for the reason that, as of June 30, 1949, insured loans had not been outstanding long enough to affect significantly the over-all repayment record.

[2] Of the 62,044 borrowers, 51,194 were farm-ownership borrowers who obtained their original loans under authorizations contained in the Bankhead-Jones Farm Tenant Act. Seven thousand and fifty were former Resettlement project borrowers and approximately 3,800 were former special real-estate borrowers. Both of these groups were able to meet conditions established by the Farm Tenant Act. They were absorbed into the farm-ownership program and nominally became farm-ownership borrowers.

It will be observed that $47,942,429 of the cumulative payments were classified as extra payments and refunds. Extra payments are derived from the sale of mortgaged property which includes such items as proceeds from mineral royalties or sales of mineral rights or payments made out of the proceeds of insurance covering losses in real property. Until March 31, 1947, all payments in excess of schedule made by fixed-payment borrowers were classified as extra payments. "Refunds" are unexpended balances turned back by borrowers who find that their entire loans are not needed to purchase and improve their farms.

Neither extra payments nor refunds lessen a borrower's obligation to make his regular principal and interest payments as they fall due year by year. Excluding these payments from consideration the combined principal and interest payments as of June 30, 1949, were $155,277,951.

One needs a standard by which to judge how good or how bad the above record is. Table 23 provides such a standard.

TABLE 23.—*Direct farm-ownership loans by fiscal years and payments required to amortize loans in 40 years*

Fiscal year (ending June 30)—	Amount loaned [1]	Amount due (40-year amortization payments [2])
1937–38	$6, 727, 547	.....
1939	17, 575, 812	$291, 034
1940	27, 511, 973	1, 051, 364
1941	44, 017, 570	2. 241, 532
1942	54, 418, 494	4, 145, 732
1943	33, 035, 607	6, 499, 876
1944	30, 009, 695	7, 928, 996
1945	28, 980, 348	9, 227, 215
1946	24, 180, 914	10, 480, 905
1947	46, 325, 735	11, 526, 971
1948	21, 370, 792	13, 626, 688
1949	20, 471, 220	14, 627, 482
Total	354, 625, 707	81, 647, 795

[1] Includes advances from appropriated and corporation trust funds for farm ownership, farm enlargement, farm development, and project liquidation loans.

[2] Amortization payments assumed to begin in first fiscal year following loan advances.

It shows that a total of $81,647,795 of principal and interest would have been paid as of June 30, 1949, if all borrowers had paid each year the exact amount required to amortize their debts in 40 years as authorized by law and by the loan agreements to which they have subscribed.

Including extra payments and refunds, it is evident that borrowers have paid substantially more than twice the amount required to amortize their debts in 40 years. Excluding extra payments and refunds they have paid 190 percent or nearly twice as much as required.

Stating the matter in another way, farm-ownership borrowers were $73,630,156 ahead of schedule with their regular payments of principal and interest on June 30, 1949. This is shown in table 24.

TABLE 24.—*Regular payments of farm-ownership borrowers compared to amount required to amortize loans on 40-year schedule, cumulative to June 30, 1949*

Regular payments made by FO borrowers	[1] $155,277,951
Amount required to amortize loans over 40 years	81,647,795
Amount ahead of schedule, June 30, 1949	$73,630,156
Percent regular payments of amount required to amortize in 40 years	190

[1] Not including $47,942,429 of extra payments and refunds.

Progress as Reflected by Repayments of Farm Purchase Loans, Gains in Net Worth, Chattel Inventories and Other Factors

It is generally assumed that repayments on their farm-ownership loans is an indication of the progress being made by farm-ownership borrowers. To be sure there may be instances in which borrowers reduce their inventories, that is, sell off livestock, workstock or other chattels, beyond the point of operating efficiency in order to meet their principal and interest payments. Likewise, some borrowers may rob their soil or permit their buildings or fences to get into a bad state of repair or live on a substandard level in order to pay their debts. In none of the foregoing cases would debt payments be a true measure of progress. On the other hand, some borrowers may be inclined to build up their inventories at the expense of debt payments. To do so they may invest in land improvements, buildings, farm machinery, livestock, increase their bank reserves or their investments. Such borrowers could make larger payments on their real-estate debts if they choose to do so. This illustrates another type of situation in which payments on debts are not a true reflection of progress.

Farm-ownership borrowers are encouraged to maintain their properties in good repair. They are also encouraged to follow sound money management practices and keep their inventories and debt payments in proper balance, with constant emphasis upon the desirability of building margins of safety or getting ahead of schedule under the variable payment arrangement. It is believed, therefore, that payments made by farm-ownership borrowers on their farm purchase debts are on the whole a very good indication of borrower progress.

Table 25 indicates the number of farm-ownership borrowers paid in full, as well as the number on, behind, and ahead of schedule in the United States and in the respective States as of March 31, 1949.

It will be observed that 19,914 borrowers or 31.9 percent of the 62,355 had as of March 31, 1949, paid their loans in full. Included in this number are 9,372 borrowers whose loans had been liquidated. But, as pointed out previously in this chapter, only half or two-thirds of the liquidated cases are the result of failures. The majority of all paid in full borrowers have paid for their farms from income derived from their farming operations. They have been successful if debt repayment be accepted as an indication of success.

Fifteen and five-tenths percent of borrowers or a total of 8,398 are exactly on schedule. As indicated in chapter X, it was not until July 1, 1941, that all borrowers were required to operate under the variable payment plan.

TABLE 25.—*Number of farm-ownership borrowers paid in full, and on, behind, and ahead of schedule as of Mar. 31, 1949*

United States and State	Borrowers	Borrowers paid in full	Borrowers on schedule	Ahead of schedule		Behind schedule	
				Borrowers	Average amount	Borrowers	Average amount
	Number	*Number*	*Number*	*Number*	*Dollars*	*Number*	*Dollars*
United States total	62, 355	19, 914	8, 398	27, 556	842	6, 487	325
Alabama	4, 546	1, 549	340	2, 358	471	299	198
Arizona	84	13	18	37	696	16	417
Arkansas	4, 227	1, 103	942	1, 859	448	323	290
California	362	142	33	127	1, 702	60	512
Colorado	448	187	61	145	1, 447	55	686
Connecticut	34	8	10	11	726	5	473
Delaware	79	23	8	21	863	27	508
Florida	619	142	72	262	325	143	238
Georgia	5, 383	1, 478	677	2, 777	373	451	228
Idaho	381	108	73	144	1, 126	56	348
Illinois	872	372	93	371	2, 066	36	374
Indiana	824	292	71	442	1, 812	19	437
Iowa	1, 058	520	121	401	1, 877	16	250
Kansas	1, 111	320	143	512	1, 424	136	358
Kentucky	1, 144	525	94	494	1, 831	31	391
Louisiana	2, 093	463	468	1, 010	535	152	302
Maine	175	42	18	58	972	57	295
Maryland	291	61	43	107	1, 084	80	391
Massachusetts	73	15	13	16	231	29	575
Michigan	961	309	119	397	872	136	330
Minnesota	2, 340	865	234	1, 095	917	146	231
Mississippi	4, 594	959	830	2, 071	306	734	368
Missouri	2, 528	819	452	1, 076	893	181	275
Montana	624	162	161	152	1, 021	149	504
Nebraska	797	366	72	303	2, 151	56	533
Nevada	29	8	6	8	441	7	457
New Hampshire	37	9	7	4	214	17	334
New Jersey	225	30	45	91	455	59	543
New Mexico	235	70	33	84	1, 312	48	657
New York	709	159	83	299	781	168	419
North Carolina	3, 486	1, 365	374	1, 626	852	121	241
North Dakota	728	301	70	297	1, 614	60	424
Ohio	1, 022	391	128	400	1, 415	103	327
Oklahoma	3, 043	1, 063	404	1, 258	994	318	255
Oregon	464	222	38	157	1, 117	47	443
Pennsylvania	883	219	94	405	725	165	296
Rhode Island	5	1	2	2	1, 044	0	0
South Carolina	2, 824	776	264	1, 295	503	489	299
South Dakota	637	281	34	284	1, 628	38	365
Tennessee	2, 026	764	199	990	1, 060	73	325
Texas	5, 068	1, 688	644	2, 179	1, 221	557	367
Utah	262	42	51	105	488	64	479
Vermont	141	32	12	36	673	61	329
Virginia	1, 050	440	94	433	1, 020	83	341
Washington	333	131	34	131	1, 020	37	274

TABLE 25.—*Number of farm-ownership borrowers paid in full, and on, behind, and ahead of schedule as of March 31, 1949*—Continued

United States and State	Borrowers	Borrowers paid in full	Borrowers on schedule	Ahead of schedule		Behind schedule	
				Borrowers	Average amount	Borrowers	Average amount
	Number	*Number*	*Number*	*Number*	*Dollars*	*Number*	*Dollars*
West Virginia	537	145	73	267	644	52	364
Wisconsin	1,800	716	146	764	964	174	225
Wyoming	200	40	66	47	1,090	47	266
TERRITORIES							
Alaska	5	0	1	1	200	3	322
Hawaii	231	105	18	74	940	34	358
Puerto Rico	727	73	312	73	441	269	238

Prior to that time they were free to choose between the fixed and variable plans of repayment. It is to be expected that borrowers operating on the fixed payment plan would be on schedule. There are, however, among the borrowers on schedule many who have just about been able to pay annually the amount required to amortize their debts in 40 years. In view of the favorable period during which the farm-ownership loans have been outstanding the borrower who has been doing the best job of farming he is capable of doing and who has barely been able to keep his repayments current would indeed be in grave danger of losing his farm during a depression.

It will be noted that 27,556 borrowers or 44.2 percent of the total were ahead of schedule by an average amount of $842 or a little more than three "scheduled" [3] payments. In reality paid-up borrowers are also ahead of schedule. About three-fourths of all borrowers were paid in full or ahead of schedule on March 31, 1949. Table 24 does not reveal how many of those who are ahead of schedule are just a few years ahead or how many are several years ahead. A study of the records of 7,300 borrowers, however, disclosed that 16.3 percent of them were, as of March 31, 1949, 5 years or more ahead of schedule. Twenty-two and five-tenths percent of them were from 2 to 5 years ahead and 23.7 percent were 1 year or less ahead.[4]

Six thousand four hundred and eighty-seven borrowers or 10.4 percent of the total were behind schedule by an average amount of $325. The sample survey referred to above revealed that 2.7 percent of the 7,300 borrowers whose records were analyzed in the special study were more than 2 years behind schedule. Six and two-tenths percent of them were 1 year behind and 3.1 percent were less than 6 months behind. Borrowers who are behind schedule are in a still less favorable position than the borrowers who are "on schedule" and would be correspondingly less able to withstand a period of general economic adversity.

[3] "Schedule" was 4.326 percent of the loan while the interest rate was 3 percent.
[4] Compiled from FHA report entitled "The Status of Active Tenant Purchase Families in 1948."

TABLE 26.—*Number and percent of farm-ownership borrowers paid in full, on, behind, and ahead of schedule in the United States and by geographic areas*

United States and geographic areas	Total number	Paid in full		On schedule		Ahead of schedule		Behind schedule	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent
United States	62, 355	19, 914	31. 9	8, 398	13. 5	27, 556	44. 2	6, 487	10. 4
East	2, 282	515	22. 6	284	12. 4	922	40. 4	561	24. 6
Midwest	14, 678	5, 552	37. 8	1, 683	11. 5	6, 342	43. 2	1, 101	7. 5
South	41, 010	12, 544	30. 6	5, 526	13. 5	19, 007	46. 3	3, 933	9. 6
West	3, 422	1, 125	32. 9	574	16. 8	1, 138	33. 2	586	17. 1
Territories	963	178	18. 5	331	34. 4	148	15. 3	306	31. 8

Table 26 shows the number and percent of farm-ownership borrowers paid in full, on, behind, and ahead of schedule in the United States by geographic areas.[5] The borrowers in the 12 Midwestern States are in the strongest position as measured by the debt-payment record. Thirty-seven and eight-tenths percent have paid for their farms in full, 43.2 percent are ahead of schedule. Eighty-one percent of all the Midwestern borrowers are therefore either paid in full or ahead of schedule while only 7½ percent are behind schedule. The South, comprising 16 States, has the largest number of loans in any geographic area and has the second best debt-paying record. Thirty and six-tenths percent of the Southern borrowers have paid in full. The West, comprising 11 States, has a slight edge over the South in this category with 32.9 percent paid in full. However, the Southern States have reported 46.3 percent of their borrowers ahead of schedule and only 9.6 percent behind. The West by comparison has 33.2 percent of its borrowers ahead of schedule and 17.1 percent behind schedule. On the continental United States, the nine Eastern States lag behind the other geographic areas in their debt-payment record. Their percentage paid in full—22.6—is the lowest of any group of States. They have 40.4 percent ahead of schedule as compared with 33.2 percent for the West. When the percentages ahead

[5] The geographic areas referred to include the following States:

East	*Midwest*	*South*	*West*
Maine.	Ohio.	Delaware.	Montana.
New Hampshire.	Indiana.	Maryland.	Idaho.
Vermont.	Illinois.	Virginia.	Wyoming.
Massachusetts.	Michigan.	West Virginia.	Colorado.
Rhode Island.	Wisconsin.	North Carolina.	New Mexico.
Connecticut.	Minnesota.	South Carolina.	Arizona.
New York.	Iowa.	Georgia.	Utah.
New Jersey.	Missouri.	Florida.	Nevada.
Pennsylvania.	North Dakota.	Kentucky.	Washington.
	South Dakota	Tennessee.	Oregon.
	Nebraska.	Alabama.	California.
	Kansas.	Mississipi.	
		Arkansas.	
		Louisiana.	
		Oklahoma.	
		Texas.	

of schedule and paid up are added together, the South has a total of 76.9 percent, the Western States 66.1 and the Eastern States 63 percent.

No attempt will be made to explain fully the differences in the debt paying records of the different geographic areas in the United States. As a matter of fact, they are not fully known. Administration may have been a factor in some instances, that is, a better job of supervision may have been done resulting in better farming and better collecting. Prevailing standards of living have undoubtedly influenced the spending habits and living habits of borrowers. The cost of producing commodities and prices received for commodities may have been a factor, for example, the cotton grower may have fared better than the corn grower or vice versa. This all suggests the possibility that geographic differences in the debt status of farm-ownership borrowers may present a fruitful field for farm-management research.

Table 27 shows the size of loans, acres operated, acres in crops, gross and net farm incomes, family living expenses, farm operating expenses, gains in

TABLE 27.—*Size of loans, acres operated, acres in crops, gross and net farm incomes, family living expenses, farm-operating expenses, gains in inventory and gains in net worth of farm-ownership borrowers in United States and geographic areas, as of Dec. 31, 1948* [1]

Item	United States	East	Mid-west	South	West [2]	Puerto Rico
Investment and income:						
Size of farm ownership loan [3]..dollars.	6, 222	6, 726	8, 104	5, 489	9, 908	4, 914
Acres operated.....	[4] 143	141	207	123	224	38
Acres in crops.....	78	70	116	68	97	21
Gross farm income.....dollars..	4, 509	7, 664	6, 519	3, 608	7, 545	3, 079
Net cash farm income.....do....	1, 974	2, 761	3, 092	1, 556	3, 198	1, 337
Use of income:						
Farm-operating expenses.....do....	1, 918	4, 295	2, 813	1, 420	3, 823	1, 454
Family living expenses.....do....	1, 068	1, 536	1, 447	900	1, 757	789
Capital expenditures from income, 1948.....dollars..	734	1, 110	1, 248	545	1, 402	98
Payment on farm ownership debt, 1948.....dollars..	413	392	616	356	534	200
Chattels—other debts:						
Gain in chattel inventory, 1948 dollars..	583	1, 216	919	418	1, 377	57
Chattel inventory, end of 1948..do....	4, 390	8, 051	7, 549	3, 186	7, 423	1, 161
Average debt other than farm-ownership of 18,726 farm-ownership borrowers [5].....dollars..	1, 183	3, 050	1, 475	901	2, 819	736
Net worth:						
Net worth at time of becoming borrowers.....dollars..	2, 058	2, 681	3, 424	1, 637	2, 792	467
Net worth, end of 1948.....do....	6, 839	8, 252	10, 900	5, 574	9, 336	2, 951

[1] Compiled from data on 7,300 out of 32,945 farm-ownership borrowers contained in FHA report entitled "The Status of the Active Tenant Purchase Families in 1948."

[2] Includes 111 loans in Hawaii.

[3] Size of farm-ownership loan and investment in farm are practically identical.

[4] 134 acres are "owned" and 9 acres are rented. Renting additional land is contrary to policy but the policy was relaxed during the war and some borrowers still rented additional land in 1948.

[5] Of 32,945 borrowers included in the study only 18,726 had debts other than their farm ownership debts. 14,219 had no other debts.

inventory, and gains in net worth of farm-ownership borrowers in the United States and geographic areas as of December 31, 1948. Data presented in this table suggest some of the reasons why farm-ownership borrowers in 12 Midwestern States have achieved a favorable debt-repayment record. The average size of loans in the Midwestern States is $8,104. Only in the 11 Western States has the average size of loans been greater. The Midwestern borrowers have on the average farmed 116 crop acres. This is substantially more cropland than the borrowers in Eastern States or Southern States farmed. Midwestern borrowers have had an average net cash income of $3,092. This is $106 less than the net cash income of the borrowers in Western States, but it is almost twice the net cash income of borrowers in the Southern States and more than $300 greater than the net cash income of borrowers in Eastern States. The Midwestern borrowers have made substantial gains in net worth and in chattel inventory. They have not built up inventory at the expense of debt retirement, however.

The borrowers in the 16 Southern States have achieved the second best debt status record with farms representing the smallest capital investment and the fewest crop acres of any of the 4 continental areas. They have spent $547 less per year for family living than the borrowers in the Midwestern States and $867 less than the borrowers in the Western States. It cost them slightly less than a third as much per year to operate their farms as it did the Eastern borrowers and only slightly more than half as much as the Midwestern borrowers. Southern borrowers have invested less than half as much in chattels as borrowers in other geographic areas.

A factor which has contributed to the high percentage of "paid-up" borrowers and the small percentage "behind-schedule" borrowers in Southern States has been a rather intensive effort to get hopelessly behind schedule borrowers to transfer their farms to borrowers who appear to be qualified to do better jobs of farming. When such transfers are affected the new borrower, as a general rule, assumes all of the indebtedness of the old borrower and the Government stands to gain rather than to lose by the shift. The old borrower, however, is credited with being paid in full when his debts are fully assumed by his successor. The debt assumed by the new borrower is reamortized and he is started off "on schedule" rather than "behind schedule." This development has, however, had no part in putting 46.3 percent of Southern borrowers "ahead of schedule." This is the highest percent of any of the four areas in this category but when the percent ahead and paid in full are combined the Midwest leads.

Data contained in table 27 with respect to the 11 Western States suggest that their failure to occupy a relative position in debt repayment comparable to their large capital investment in farms, size of farms, gross income, and net income is due to high family living expenses, high capital expenditures from income, and high debts other than farm-purchase debts. Apparently, Western borrowers, as a group, are diverting more of their earnings into family living and capital expenditures than borrowers in any other geographic region.

The Eastern States have substantially higher farm-operating expenses than any other geographic area. This is due to the fact that dairying is

the predominating farming enterprise. Although prices for dairy products have been high, the cost of feed has been high also. The same may be said of poultry farmers. The Eastern States have the highest chattel inventory average of any of the geographic areas. This again is due to the large amount of money tied up in dairy cows. A higher percentage of the total farm investment in Eastern States is tied up in dwellings and other farm buildings than is the case of other major geographic areas.

Puerto Rico's debt-paying position is quite readily accounted for. Capital investment is low, farms are small in size, crop acres on the average are less than a third of those of any geographic area on the continent. Gross and net incomes are correspondingly small. It may be said in explanation of these facts that it is not practical, because of the prevailing economic standards in Puerto Rico and the extreme pressure of population upon the land, to observe there the standards that are appropriate on the continent.

Aside from providing a basis for comparing the progress of borrowers in different geographic areas, table 27 contains data which is indicative of the economic status of farm-ownership borrowers in general and of their over-all progress. Farm-ownership loans in the United States average $6,222; the average number of acres operated by farm-ownership borrowers is 143; the average acres in crops is 78. On such farms as these representing such capital investments as these and with chattel inventories averaging $4,390, borrowers on the average made gross farm incomes in 1948 of $4,509 and net cash farm incomes of $1,974.

The average net worth of borrowers when they obtained their loans has been $2,058. By the end of 1948, after they had had their loans an average of 5.1 years, their average net worth had increased to $6,839. This represents an average gain of $937 per year which could mean much or little depending upon the manner in which annual inventories are made. Farm-ownership inventories are conservatively made so that they may in fact be true measures of borrower progress.[6] It is the policy that the inventory value of real property shall be maintained at a fixed level, irrespective of assumed increases in market value, except as capital or labor expenditures are made which increase the earning capacities of farms. Buildings and machinery are depreciated realistically. In view of these facts, gains in net worth are believed to be the most reliable measures of borrowers' financial progress.

Information has not been tabulated on the average value of borrowers' chattels at the time they obtained their loans. However, by the end of 1948 the value of livestock, tools, equipment, and other chattels owned by farm-ownership borrowers averaged $4,390. The average gain in chattel inventories in 1948 was $583. Capital expenditures from income averaged $734. Borrowers investments in chattels were on the average 70 percent as great as their investments in their farms.

Table 28 shows the gross income of farm-ownership borrowers before and after obtaining their loans and their net income and expenditures in 1948.

[6] See FHA Instruction 436.1, exhibit A, Details on Inventory-Farm Ownership Real Estate.

TABLE 28.—*Gross cash income of farm-ownership borrowers before acceptance and their income and expenditures in* 1948 [1]

Income and expense:	
Gross cash income before acceptance	$1,563
Gross cash income 1948	4,378
Livestock and livestock products	1,994
Crops	1,789
Other farm	109
Off-farm	486
Cash operating expenses	2,986
Family living expenses	1,068
Food	390
Clothing	201
All other	477
Farm operating expenses	1,918
Feed bought	438
Auto, truck, and tractor expense or hire	484
Hired labor	284
All other	712
Net cash farm income	[2] 1,974
Net cash income	[3] 2,460
Value of home-use products	617
Gross farm income	4,509
Gross family income	[4] 4,995

[1] Based on sample of 7,300 borrowers out of total of 32,945.
[2] Cash receipts from farming minus farm-operating expenses.
[3] Gross cash income minus farm-operating expenses.
[4] Gross cash income value of home-used products.

The year before borrowers obtained the loans their gross incomes had averaged $1,563. In 1948, they averaged $4,378. Slightly more of the income was derived from livestock and livestock products on the average than from the sale of crops. Despite the fact that the aim is to establish farm-ownership borrowers on farms which will utilize the available labor supply of an average farm family, the record indicates that $486 or 11.1 percent of the gross income was "off-farm" income. As an offsetting factor $284 was expended for hired labor. The borrowers earning off-farm income and those hiring outside labor may have been different borrowers for the most part. However, some borrowers may have been short on labor supply at certain seasons and not fully employed at other seasons.

Cash-operating expenses of borrowers averaged $2,986 or 68 percent of the average gross income. It cost borrowers considerably more to operate their farms than it did to pay the bills incurred for family living expenses. One thousand nine hundred and eighteen dollars was paid out on the average for farm-operating expenses and $1,068 for family living. The value of home-used products, however, was $617 on the average. Had borrowers produced less for home consumption their cash living expenses would have been greater or their diets would have been poorer. Food and clothing were the two largest items in family living costs. Auto truck and tractor expenses made up the largest single item under farm operation. The average expenditure for feed was $438.

It appears that farm-ownership borrowers were receiving incomes or income equivalents in 1948 comparing roughly with incomes of town or city workers ranging between $3,300 and $3,600. By adding the value of borrowers' home-grown food and fuel ($617) to their net cash incomes $2,460,

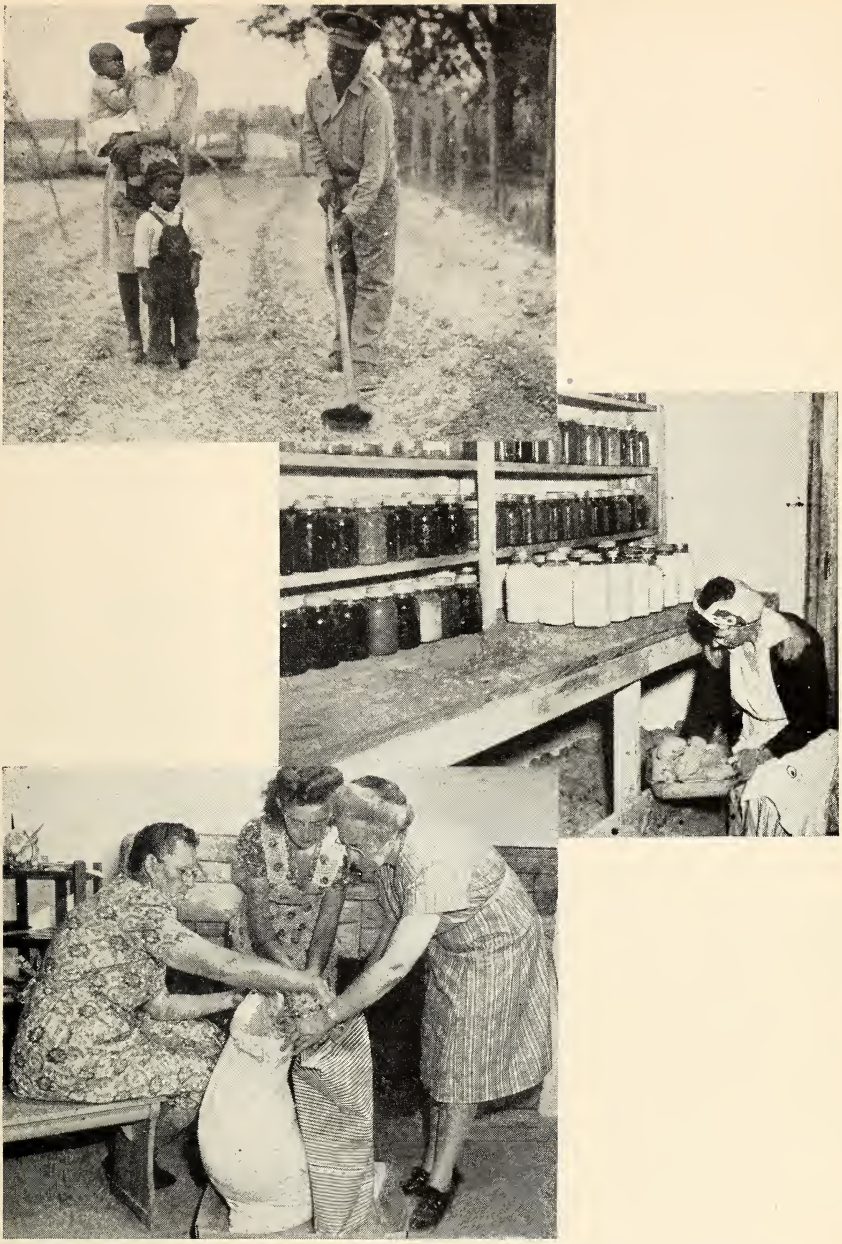

FIG. 33.—Farm and home plans call for "live-at-home" methods which include planting a farm garden (upper left), canning enough food to provide for the family in nongrowing seasons (upper right) and making many of the family's household furnishings from farm-grown materials (bottom).

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a total of $3,077 is obtained. It is reasonable to assume that a family living in a town or city would have paid from $300 to $600 in 1948 for a dwelling similar to one on a typical farm-ownership farm. To place the borrower's income on a basis comparable to that of the average wage earner, therefore, from $300 to $600 should be added to the foregoing $3,077 total giving an over-all income equivalent of around $3,377 to $3,677.

The records of farm-ownership borrowers presented in this chapter were achieved during a period of high farm prices and general prosperity. There has been much speculation as to how farm-ownership borrowers would fare in hard times. There can be no conclusive answer to that question. Depressions have, in the past, claimed casualties in all segments of our economy. No doubt many of the weaker farm-ownership borrowers would fail to survive a depression. It is reasonable to assume, however, that failures among borrowers would not be anything like universal. It will be recalled that 31.9 percent of all borrowers have paid for their farms in full. The owner of a debt-free family farm with self-sufficient or nearly self-sufficient labor supply is in very good position to withstand lean years. Forty-four percent of the borrowers who are ahead of schedule by an average of about three annual payments would also face a depression in strong position.

Failures—Their Causes and Resulting Losses

The over-all figures given above leave unanswered the question how many failures have there been among farm-ownership borrowers and how much money has the Government lost on the 62,355 [7] loans it has made. It will be observed by referring to table 29 entitled "Summary of Farm-Ownership Liquidations in the United States by Methods of Liquidations, as of June 30, 1949," that 9,372 accounts had been liquidated. This means that that many farm-ownership farms had been sold, transferred, foreclosed, or otherwise repossessed by the Government. This is 15 percent of the total. In other words, slightly more than one borrower out of seven, for one reason or another, had disposed of or had been dispossessed of his farm within a period which did not in any case exceed 11 years. This is a relatively large ratio of liquidations in view of the time involved and there is reason for speculation as to why it is so large.

Various reasons for liquidations are discussed later but one reason why some borrowers have voluntarily given up their farms is that inducements for accepting other employment or going into other lines of business have been great during the war and postwar periods. Jobs have been easy to get in industry at wages that were actually high or that appeared to the borrower to be high in comparison with his farm income. It has been easy to dispose of farms for more than borrowers had invested in them. Also there have been some discouraging things about farming. Machinery and equipment were for many years scarce and high priced. Many sons of borrowers who had been helping with farm work entered the armed service. All in all those who remained behind to carry on had to cope with many difficulties. The foregoing are general reasons. They may not fully explain why one farm-ownership borrower out of seven has not remained on

[7] Includes 719 insured mortgage loans.

TABLE 29.—*Summary of farm-ownership liquidations in the United States, by method of liquidation, as of June 30, 1949*

Method of liquidation	Borrowers	Amount advanced	Refunds	Amount unpaid at time of title change	Amount compromised, adjusted, or canceled	Claims held against borrowers	Amount of deficiency judgment	Total probable loss	Probable loss of amount advanced
	Number	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Percent*
United States total.....	9, 372	46, 512, 776	1, 243, 763	41, 840, 981	185, 408	222, 747	[1] 9, 510	356, 162	0. 8
Sale:									
War purposes.....	136	771, 304	25, 781	621, 428	0	0	0	0	0
Other than war purposes..	4, 884	24, 554, 959	620, 073	20, 721, 653	12, 045	337	0	12, 383	. 1
Foreclosure:									
Individual [2].....	83	391, 639	22, 308	372, 920	1, 902	35, 467	4, 255	33, 786	8. 6
Government [3].....	221	1, 021, 365	66, 374	963, 382	4, 381	104, 917	5, 255	67, 404	6. 6
Deed in lieu of foreclosure.....	742	3, 325, 018	233, 231	3, 051, 431	139, 419	79, 120	0	213, 119	6. 4
Transfers.....	3, 304	16, 443, 607	275, 563	16, 105, 669	27, 661	2, 906	0	29, 470	. 2
No report.....	2	4, 884	433	4, 498	0	0	0	0	0

[1] Does not include operating profit of $66,827 on repossessed and resold farms, or $7,509 loss on repossessed or resold farms. Including these 2 items the total probable loss is $296,844.

[2] Purchased by individual at foreclosure sale.

[3] Purchased by Government at foreclosure sale.

his farm as he signified his intention of doing when he obtained his loan, but it is believed that they are important considerations.

The amount advanced to the 9,372 borrowers whose accounts were liquidated was $46,512,776 and the total probable loss on the transactions is estimated to be $365,162. Taking into account an operating profit of $66,827 on repossessed and resold farms and an additional anticipated loss of $7,509 on repossessed farms, the estimated ultimate net loss is $296,844 or 0.6 percent of the amount advanced to borrowers involved in the liquidation. It is, however, only eight one-hundredths of 1 percent of the total amount loaned to all borrowers.

One hundred and thirty-six of the farms were taken over by the Federal Government for war purposes. The borrowers had no recourse in these cases. They were obliged to sell. The question of success or failure was not involved.

Up to June 30, 1949, there have been only 304 actual foreclosure cases. In 83 instances private purchasers were the successful bidders at public sales of these properties and in 221 instances no private bidder exceeded the bid which the Government made to protect its investment. Most of the foreclosures involved borrowers who were unsuccessful in their operations. There were a few exceptions, notably those in which friendly suits to quiet title were instituted following the death of a borrower or his wife. It is estimated that the Government will lose $33,786 on sales of foreclosed properties to individuals and $67,404 on foreclosed properties which it bid in.

In 742 cases borrowers voluntarily surrendered their deeds to the Government in lieu of being subjected to foreclosure proceedings. This practice is advantageous to both the borrower and the Government when a satisfactory transfer to an eligible borrower cannot be arranged. It saves time and also the expenses incident to foreclosure action. The loss ratio in cases of this kind has been 6.4 percent of the amount loaned. Approximately, the same loss ratio was experienced in connection with Government foreclosures.

There were 3,304 voluntary transfers from which the estimated loss has been $29,470 or two-tenths of 1 percent of the amount loaned. Accidents, sickness, and death have been responsible for some of the transfers. In a high percent of the cases borrowers were not making satisfactory progress as evidenced by their debt repayment records or other considerations and they were encouraged by the Farmers Home Administration to transfer their farms to other eligible borrowers.

Another 4,884 liquidations represented sales of farms outside the program which were not forced sales. In some instances, because of the circumstances involved, the Farmers Home Administration advised these borrowers to sell their farms. In other instances borrowers sold wholly on their own initiative. A total of $4,454,959 had been loaned for the purchase of these 4,884 farms. Only $12,383 or one-tenth of 1 percent of the loans was not recovered. This is an inconsequential monetary loss. As a general rule, the borrowers sold their farms at prices equal to or greater than

their investment. Most of them profited financially. While the purposes for which the loans were made to those borrowers were at least not wholly fulfilled in that they did not remain permanently on their farms, in many instances the farms served borrowers as stepping stones to something which appeared to offer greater opportunities. On the other hand, some of the borrowers who sold their farms were not making satisfactory progress.

Many of the borrowers who sold their farms outside the program would have transferred them to other approved applicants, thereby enabling the Farmers Home Administration to retain the suitable ones in the program, had it not been for a restriction which prevented transferors from being released from personal liability. During the period from May 31, 1944, to June 30, 1947, farm-ownership borrowers, who transferred their farms to approved applicants, were held liable for the indebtedness until it had been paid in full by the borrower to whom the farm was transferred.

On June 3, 1947, the regulations were changed so that borrowers who fulfill their obligations, live up to their agreements and farm in a workmanlike manner may be released from liability upon the transfer of their farms to other approved borrowers.[8]

Although data do not provide a basis for a precise determination, it is probable that between a half and two-thirds of the 9,372 liquidations represent borrowers who, by ordinary standards of judgment, have been unsuccessful. This means roughly a ratio of 1 unsuccessful borrower to every 10 or 15 who are successful.

County supervisors and county committeemen have undoubtedly profited by experienced gained in earlier years and it may be assumed that they are now exercising greater care in passing upon applications for loans. Supervisors have also improved their effectiveness in getting borrowers to farm better. These two respects in which progress has been made should tend to result in reducing the ratio of failures to successes. Still further improvement should result from the fact that county supervisors and county committees have now gained experience which enables them to more accurately determine the adequacy of farms selected by borrowers and the earning capacity value of such farms.

Causes of farm-ownership liquidations.—The causes of farm-ownership liquidations are shown in table 30. Accidents, ill health, old age, or death constitute a group of causes which head the list. By diligent observance of health and safety measures, liquidations for these causes can be held to a minimum but they cannot be eliminated. They are related to the normal processes of life. The ideal situation would be approximated if adjustments were made within the family circle so that survivors would continue to operate the farm when original borrowers are no longer able to do so. This has happened in some cases and widows continuing to operate farms have often been quite successful. The record indicates, however, that when the original borrower is permanently incapacitated a liquidation usually follows.

[8] Administration Letter No. 31, Classification 465 (June 3, 1947).

TABLE 30.—*Causes of 9,372 farm-ownership liquidations in the United States cumulative as of June 30, 1949*

Item	*Number*
Accidents, ill health, old age, or death	2,183
Change to other occupations	1,680
Lack of good management	1,302
Dissatisfaction with location or community	872
Poor or inadequate farm	626
Desire to sell for profit	598
Marital difficulties	385
Decrease in family labor supply	286
Borrower objection to supervision	255
Deferred or unsatisfactory improvements	95
Other causes	688
Not reported	402

The second highest cause of sales or transfers of farm-ownership farms has been changes to other occupations. There had been 1,680 such cases up to June 30, 1949. It may be assumed that the borrowers making such changes usually do so with the hope or expectation of improving their circumstances. This may be because the returns to borrowers from farming have been disappointing to them or because opportunities in other fields appeared more promising. In either event, the purpose for which the loan was made is not fully achieved even though the borrower himself may have made progress.

Lack of good management on the part of the borrower stands third among the causes of liquidations, there having been 1,302 such cases. When this is cited as the reason for a change in ownership it means that managerial or operating shortcomings are obvious and that it has not been possible to remedy the situation by supervision. Such borrowers definitely have not been successful in the farm-ownership program.

Dissatisfaction on the part of the borrower or his wife with the location of the farm or the community in which it is situated has been the primary cause of liquidation in 872 cases or 9 percent of the total. The importance of this factor became apparent very early in the farm-ownership program. Often the borrowers involved had spent their lives within the confines of a relatively compact community in which their relatives, friends, neighbors, fellow church members, or fellow lodge members resided. A move to a community only a few miles away involved social and personal adjustments which were too difficult for some borrowers and particularly for some borrowers' wives.

In 626 instances or 6.6 percent of the total, poor or inadequate farms have been the cause of difficulty. This appears to provide the answer to the often discussed question as to whether lack of success has been due more often to a poor farm or a poor farmer. Apparently, the farm has been the limiting factor only half as frequently as the farmer.

Desire to sell the farm for profit has been the cause of 598 or 6.3 percent of the liquidations. The law does not permit the sale of a farm-ownership farm without the consent of the Farmers Home Administration. Neither does the act permit the borrower to make final payment on the indebtedness with proceeds from the sale of the farm or otherwise, within 5 years from the date of the mortgage, without the consent of the Farmers Home Admin-

istration. One of the basic reasons for these restrictions is to prevent a borrower from speculating with public funds which have been provided to promote the ownership of family-type farms by persons who actually farm them. Sales for profit have been discouraged as a matter of policy, but approval has been given for such sales under certain circumstances. In this connection, it should be stated that it has often been possible for borrowers to sell farms for more than double their original investments in them. Significantly, this opportunity has been available to many borrowers who have made no effort to take advantage of it.

Marital difficulties have accounted for 385 liquidations. Farming is distinctly a family enterprise and when a family breaks up the prospects for future success are, to say the least, greatly impaired.

Decrease in the family labor supply which has accounted for 286 liquidations usually means that children have grown up and left elderly parents on the farm alone with more responsibilities and work than they have had strength to assume in their declining years. This problem is often solved, however, by shifting to enterprises which involve less labor, such for example as changing from dairying to beef production or changing from an intensive cropping system to an extensive one.

Borrower objection to supervision has been a contributing cause of 255 unhappy endings out of more than 62,000 loans. Supervision may have been unwisely administered in some of these cases, thus providing a basis for the dissatisfaction that developed. In other cases, borrowers may have been unduly sensitive to essential requirements such as conformance with good farming practices and proper maintenance of properties which secures the Government loans. To be sure some borrowers may have objected somewhat mildly to supervision without manifesting their objection in any drastic manner. The chapter on attitudes of borrowers, however, presents evidence that supervision is more often appreciated than resented.

Deferred or unsatisfactory improvements has been a minor cause of liquidation, being mentioned in only 95 cases. This problem stemmed largely from wartime restrictions on construction and is diminishing. Occupants of farms created by the subdivision of plantations were the chief sufferers from deferred construction. Dwellings on the plantations at the time of subdivision were sometimes scarcely habitable and there was much justification for the dissatisfaction which developed among those who were obliged to occupy them until wartime restrictions were lifted and building materials became available.

The system of reporting causes of liquidations was not fully developed until after the program has been in operation for some time. This accounts in part for 402 cases in which the causes are not reported. There were also 688 cases attributed to "other causes" which are of such a varied nature that no attempt has been made to classify them. Improvements continuously being made in the reporting system should make more complete information available in the future.

Chapter XV

CAPITALIZING UPON EXPERIENCE

Record Provides Basis for Evaluation

As this concluding chapter is written the farm-ownership program is in its thirteenth year of operation. The preceding chapters record what has transpired to date legislatively, administratively, and in terms of loans made and results secured. Altogether a substantial body of experience has been accumulated. It is doubtful if continued operation of the program for as many more years on something like the scale maintained in the past would bring to light much information of significance that has not already been revealed. An economic collapse might, of course, introduce some new angles and uncover some new facts.

Now that a trial heat has been run, now that a demonstration has been made which has involved millions of dollars, thousands of families, and a like number of farms, now that the results have been tabulated and evaluated, we should be prepared to answer the question: (1) Can the program authorized by title I of the Bankhead-Jones Farm Tenant Act serve the purpose which Congress had in mind when the law was passed? (2) Can it be made effective in a large way in "promoting more secure occupancy of farms and farm homes"? (3) Can it become the instrumentality through which significant progress is made in "correcting the economic instability resulting from some present forms of tenancy"?

Despite a decline in the percentage of farm tenancy in the United States, the problems which gave rise to the Bankhead-Jones Farm Tenant Act still exist. No other specific approach to them has been seriously proposed. If the device which we have is a good one or one which, with some modification, is susceptible of being made effective it would appear to follow logically that we should make full use of it. If making loans to farm tenants, farm laborers, share croppers and others to enable them to acquire adequate family farms, enlarge undersized farms, and develop underdeveloped farms will result in establishing and preserving the relation between people and land which will best serve the public interest in these United States, then such loans should be made at whatever rate is needed to solve the problems of tenancy. On the other hand if an objective evaluation of the farm-ownership program warrants the conclusion that it is an ill-advised or inadequate approach then a better and more adequate approach should be sought. Information presented in previous chapters should help readers make such an evaluation. The author believes that facts heretofore presented point toward an improved and expanded farm-ownership program, supplemented by and correlated with a sound production loan program. These facts sug-

gest that such a program can contribute substantially to the solution of the Nation's major land-tenure problems.

Admittedly, the farm-ownership program is presently too limited in scope to be of much consequence in solving important land-tenure problems or influencing trends in that field. "It has barely scratched the surface" is the most serious indictment, in fact about the only criticism of consequence, that has been leveled against it during its trial years. As the program evolves from the demonstration stage to the solution or remedial stage can a volume of lending operations be attained and maintained that will penetrate beneath the surface, influence the trend of events, and actually be a means whereby desired national land tenure objectives are achieved?

It should be emphasized that the problems with which we are dealing are continuous and recurring. There is a period in the life span for becoming established in gainful pursuits. That is true of young married couples who choose to become farmers. If they cannot gain satisfactory access to the business of their choice when the time comes for doing so they are compelled to look elsewhere. An occasional or intermittent effort to solve the continuing problem of farm transfers will, therefore, not suffice.

It is a matter of common knowledge that farms are continually bought and sold. The rate of transfers is not constant from year to year, but there are always sellers and always buyers.[1] There may not be a sufficient number of family farms in the United States, existing or potential, to supply all who desire them. Some would-be farmers may be unable to get farms on which they can make a living simply because there is not enough arable land to go around. Nor is it assumed that the privileges of farm ownership should be vouchsafed by the Federal Government as an inherent right to any special group. The question is—should a reasonable number of the competent young men and young women, born and raised on farms, including the low-income farms which constitute roughly from a third to a half of the total, have opportunities to become owners of farms on which American standards of living can be maintained? If they start as farm tenants, farm laborers, or share croppers can a fair percentage of the more successful reasonably expect that ownership will be the ultimate reward of thrift, industry, and good management?

The importance of the foregoing questions is accentuated by the increased mechanization of farming operations and the resulting increase in the size of family farms and in the capital required to purchase and equip them. The Columbia University Seminar on Rural Life found that—

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[1] USDA Circular 823, table 4, p. 14 indicates that 27.2 farms per 1,000 in the United States were voluntarily sold or traded each year on the average from 1935 through 1939. In 1947 the number of transfers per 1,000 farms was 57.7; in 1948 it was 40; in 1949 it was 40.8. The average annual number of foreclosures of mortgages, bankruptcies, etc., was 17.4 from 1935 through 1939; it was 1.1 in 1947; 1.0 in 1948; 1.2 in 1949. It is anticipated that the number of voluntary transfers may level off at around 35 per 1,000 and the number of forced sales and foreclosures at around 8 per 1,000. The number of farms in the United States, excluding cropper farms and farms under 3 acres in size, is assumed to be 5,318,000. Thus, the anticipated average annual number of voluntary and forced sales may be expected to range from around 200,000 to 250,000.

The problem of transferring a farm from generation to generation without fastening upon the new operator a heavy burden of debt is one of, if not the, most crucial of the problems of the family farm.[2]

Ladd Haystead in a feature article in the Country Gentlemen of October 1948 made the following statement in an introductory paragraph:

If you travel from coast to coast interviewing county agents, farm leaders, land-grant college professors, country bankers, and farmers of all kinds with the question: "How do we get and keep farm youth on the land under modern high capital requirements?", you will find the first answer invariably to be "that's the biggest problem in American agriculture today."

Shifting from a demonstration to a full-scale operating basis may mean stepping up the number of loans made annually in the United States from a minimum of around 2,000 and maximum of around 8,000 to something like 30,000 or 40,000. Thus, approximately a third of a million loans might be made in a decade and in the neighborhood of a million loans in a 30-year period. Within that 30-year period, it may be assumed that the bulk of America's 6 million farms would have passed from one generation to the next and many farms would have changed hands several times.

The foregoing figures merely convey a general idea of the approximate scope of operations necessary if we are to meet the problems of land tenure and of the transfer of farms from generation to generation. Logical objectives of an expanded farm-ownership program would be to:

(1) Convert approximately a million undersized or underdeveloped farms in the United States on which operators are now trying unsuccessfully to make decent livings into efficient farm-management units on which thrifty and industrious families can live respectably.

(2) Help the present generation of farm tenants, farm laborers, and share croppers desiring to become owners of family farms and qualified to assume the responsibilities of ownership to achieve their objectives.

(3) Help the oncoming generations of young men and young women raised on family farms and desiring to succeed their parents as operators and ultimately as owners of those farms to do so without assuming debt obligations which they will be unable to meet.[3]

The benefits of an expanded farm-ownership program would not be confined to accelerating attainment of the foregoing major objectives. A paramount problem of the present postwar period is that of production adjustments involving significant changes in systems of farming on individual farms in the Cotton Belt, Corn Belt, Wheat Belt, and elsewhere. Farm-ownership borrowers, operating under supervision could become trail blazers

[2] Case Studies of Family Farms, p. 10.

[3] There is at present a growing interest in father-son agreements covering the joint operation of the home place while both father and son are active and its transfer to the son thereafter when the father is no longer able or no longer desires to participate actively. The insured farm-ownership loan is peculiarly adapted to this type of transaction. The son may execute a note in his father's favor for not more than 90 percent of the purchase price of the farm. He must be able to pay 10 percent out of his own resources. Repayment of the note is fully guaranteed by the Farmers Home Administration. The father is thus assured of annual principal and interest payments until the note is fully paid. He receives 3 percent interest on unpaid principal and is thus spared the necessity of seeking an investment on the savings which are tied up in his farm. It is in effect an annuity type of investment for the parents.

or pattern setters in this transition process. They are in fact performing these roles at present, particularly in the Cotton Belt where many of them have reduced their acreage of cotton, increased their acreage of improved pastures, legumes, and cover crops, and their numbers of livestock and poultry.

Farm-development loans are especially designed to meet the needs of owners of family-size farms who are unable to obtain other credit and who desire to clear land, construct buildings, prepare and seed land to permanent pasture, build fences or terraces, and otherwise effect the transition from single-crop farming to diversified farming and from soil depletion to soil conservation. The debt repayments, gains in net worth and improved standards of living of borrowers who have revised their systems of farming or enlarged or developed their farms show that the capital expenditures involved have contributed to greatly increased profits.

Since all recipients of farm-ownership loans would be persons unable to get credit from regular credit sources, no competition with private lending agencies would result from such program expansion as that under discussion. The use of private or cooperative credit would be greatly stimulated, however, by refinancing operations of farm-ownership borrowers. Sooner or later each of them would become a potential candidate for a private refinancing loan.

The number of voluntary transfers of farms in the United States would doubtless be stimulated somewhat, but not greatly, by the making of around 30 or 40 thousand farm-ownership loans per year. In the first place, many of the loans would be farm-development loans involving no transfer of land. Some of them would be farm-enlargement loans involving transfers of small parcels of land in some instances and combinations of small farms in others.

Factors Affecting Volume and Continuity of Loans

Administrative feasibility.—The three important factors affecting the volume of farm-ownership loans are: (1) Administrative feasibility, (2) the number of qualified persons desiring loans, and (3) the number of suitable farms available for purchase and enlargement or development at prices or costs in line with their earning capacity values.

First, let us direct our attention to the question—is it administratively feasible to expand the farm-ownership program sufficiently to make it effective as a remedial measure? If expansion from the present basis of operation were achieved gradually over a period of 5 or 10 years administering the enlarged program would be a practical undertaking. In fact, some administrative problems would be lessened by an increased volume of operations. In some States the number of farm-ownership loans made in recent years have averaged less than one per county. Field employees do not master the legal and technical angles of loan making when so few loans are made. Increased volume would permit increased specialization and greater efficiency.

The unit cost of making and servicing loans should diminish as the number of loans increases since the addition to over-all administrative costs would not be proportionate to the gain in volume of loans. The number of accounts kept would, of course, be much greater after expansion had occurred.

There would be an increase in personnel in area finance offices and in State appraisal and engineering staffs, but there would be a relatively small increase in the central administrative staff in the national office. Most of the additions to personnel would be at the county level where loans are made and supervised.

The administrative problems caused by program expansion can perhaps be brought into sharper focus by considering the matter from a case-load standpoint. Let us assume, by way of illustration, that 20,000 insured loans and 10,000 direct loans are made annually for the next 30 years. It has been pointed out that borrowers are required to seek refinancing loans when they have 35 percent equities in their farms. An insured mortgage borrower who pays no more and no less annually than the amount required to amortize his debt in 40 years will acquire that 35 percent equity in 17 years. A direct loan borrower who makes no down payment will attain this equity in 21 years. On this basis the over-all national case load would stabilize at approximately 550,000 active borrowers. If 40,000 loans were made annually the peak case load figure for the Nation would be around 733,000. When the lending activities of the Farm Security Administration were at a peak in 1942, there were more than 800,000 loan accounts of all kinds on the books of that organization.

The job of making and supervising loans in a single county may furnish a still more accurate measure of the feasibility of the proposed undertaking. An average of 10 loans per county per year in each of the 3,000 agricultural counties in the United States would give an annual total of 30,000 loans. Counties vary greatly in size, however, as well as in percentage and nature of tenancy and in number of farms in need of enlargement or development. Consequently, more loans would be made in some than in others.

Let us assume, therefore, that 30,000 loans would be made and that they would be distributed as follows: An average of 15 loans per year in one-third of the counties, an average of 10 loans per year in another third, and an average of 5 loans per year in the remaining third. Let us assume also that the ratio of insured loans to direct loans would be two to one.

After 17 years the number of insured loans would "level off" at 170 in the county making 15 loans per year. Each year thereafter the number paying off or refinancing their loans would equal the number of new insured loans made. This "leveling off" in the case of direct loans would occur in the twenty-first year, at which time there would be 105 such loans. Of the two kinds of loans there would be a total of 275.

With no other duties a county staff of two supervisory employees and one clerical employee might under favorable circumstances, be able to service and supervise the case load described above. This is well over 100 cases per supervisor and some experienced State FHA officials consider more than 100 excessive if good work is to be done. Certainly, it would be too many borrowers per supervisors if all of them were new borrowers or a considerable portion of them were "problem cases." However, many of them would be old borrowers in need of very little supervision. Their systems and methods of farming should be well-stabilized. Their land and buildings should be well maintained. They should in general be able to make their own farm

and home plans, keep their own records and submit their own annual income returns with very little assistance. Supervisors would be free to devote most of their time to making new loans, helping new borrowers, helping borrowers who are making unsatisfactory progress, and working with groups of borrowers at annual meetings and otherwise.

In counties making an average of 10 loans per year, the case load would level off at 183 loans. This would be more than a full-time job for a single supervisor, but a little less than a full-time job for 2 supervisors. In the county making 5 loans per year the case load would level off at 92 outstanding loans. A single supervisor doing nothing else could readily handle the field work in such a county. Two or more small counties might in some instances be combined under a single office to reduce overhead costs. This is done at the present time where case loads are small.

It is possible to determine quite accurately the cost of maintaining county offices with the different numbers of employees required for different numbers of borrowers indicated above. It is also possible to compute the net interest derived from the outstanding loans in the different counties.

If the ratio of insured loans to direct loans were 2 to 1 with the average size of initial direct loans being $10,000 and the average size of initial insured loans $9,000,[4] the annual net interest yield in the county with 275 borrowers would be approximately $31,500. If there were subtracted from this amount one-half of 1 percent interest for reserve against losses, the remaining annual net interest earnings would amount to $20,290. The annual cost of the county office including the cost of appraisal, engineering, and county services but not including the county's share of State and National overhead would be around $15,000 if two supervisors were employed, and around $20,000 if three supervisors were employed. In either of these instances the administrative cost in the county would be less than the net annual interest earnings after subtracting the allowance for losses.[5] If the average amount of loans were reduced one-third, the annual net earnings above the reserve to cover losses would be correspondingly reduced to around $13,500 per year—90 percent of the cost of a two-man staff and two-thirds of the cost of a three-man staff.

In actual practice FHA employees who make and supervise farm-ownership loans also make and supervise several types of FHA production loans and in the 17 Western States, they make and supervise water-facilities loans.

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[4] Insured loan borrowers must pay 10 percent of the cost of their farms from their own funds. In the illustration used it is assumed that both the direct loan borrower and insured loan borrower invest $10,000 in their farms and that the latter borrows $9,000.

[5] Method of estimating income and earnings explained in memorandum from L. D. Malotky to Paul V. Maris dated April 3, 1950. Since the Government pays around 2 percent for the money which is loaned to borrowers at 4 percent the net interest yield on direct loans was assumed to be 2 percent. The interest yield on insured loans was assumed to be 1 percent. In calculating the annual interest earnings available for administrative purposes, one-half of 1 percent interest was deducted in the case of both the direct loans and the insured loans for a reserve against losses. Past experience indicates that this amount of reserve is very liberal. Actual losses to date are approximately eight thousandths of 1 percent of total advances. The one-half of 1 percent figure was used, however, because Congress has provided that that amount shall be credited to the mortgage insurance fund to cover possible losses on insured loans.

This fact has been disregarded and calculations have been based solely on farm-ownership loans in order to convey a general idea of public expenditures, as contrasted with public receipts related to the farm-ownership program. If direct loans were carried 21 years before refinancing and insured loans were carried 17 years as in the foregoing illustration receipts from interest would as a general rule fairly well balance administrative expenditures.

Under conditions similar to those which have prevailed during the past decade, farm-ownership direct and insured loan borrowers would acquire 35 percent equities in their farms in much less than 21 and 17 years, respectively. Thus, the illustrations used are not typical for such periods. If most borrowers were ready for refinancing between the tenth and fifteenth year, and they might well be if circumstances were favorable, the result would be substantially smaller case loads than those used in the examples given. It would not be possible, however, to reduce personnel at the county level in the same ratio as case load. A certain minimum staff must be maintained in order to keep an office going. This factor tends to operate against receiving a net interest income as great as administrative expenditures. Therefore, under certain conditions interest payments would exceed administrative expenditures and under certain conditions they would be less than administrative expenditures at the county level.

Qualified families in need of loans.—The foregoing analysis indicates the administrative feasibility of substantial program expansion. What then may be said of the human element in the equation? Are there, within the ranks of low-income farm families of the United States a sufficient number imbued with hope, aspiration, and a will to better their lot to keep an expanded program going? Again the answer is "yes."

In the chapter on farm-ownership families, the number of families in the United States eligible for farm-ownership loans was estimated to be slightly in excess of 1 million. Roughly, half of them are tenants, sharecroppers or farm laborers in need of loans to finance the purchase of farms. The remainder are farm owners in need of loans to finance the development or enlargement of their holdings. The findings of the United States Bureau of Agricultural Economics, although based on a somewhat different approach, tend generally to confirm these estimates. It appears, therefore, that expansion of the farm-ownership program would be fully justified from the standpoint of families now in need of loans. Furthermore, the percentage of young people raised on farms able to qualify for farm-ownership loans should increase rather than diminish because an ever-increasing number of them will have had the benefit of agricultural teaching in high school and training in 4–H Clubs. Likewise, a sizable portion of the successful production loan borrowers in the future, as in the past, will desire to graduate from the farm-tenant class into the farm-ownership class and will have demonstrated that they are ready to do so.

As a matter of fact, direct loans to nonveterans are now reduced almost to the vanishing point. The demand from nonveterans is not less urgent than it has been any time during the past decade. Veterans, by virtue of their preferential status under the law, simply absorb all of the direct-loan

money available. While there is ample justification for extending farm-ownership loans to veterans and according to them the benefit of the safeguards afforded by the farm-ownership program, there appear to be no logical reasons why this should be accomplished at the expense of loans to nonveterans. It would appear that loans to nonveterans as well as to veterans should be made as the need warrants.

The Bankhead-Jones Farm Tenant Act of 1937 authorized annual appropriations of $50,000,000 a year for direct loans. But since the act was amended in 1946 authorizing private agencies to make loans which are insured by the Government, authorizations for direct loans have been limited to $15,000,000 a year. Appropriations for direct loans may continue to be restricted if banks and other private lenders expand their investments in insured loans. The resulting shift from direct loans to insured loans will, if the 10 percent down payment requirement is retained, tend to exclude from the benefits of the farm-ownership program the group of farm families who are most in need of the loans.

It is possible that the down-payment requirement was included in the insured mortgage amendment of 1946 without full realization of two facts—first the extent to which the class of farmers originally intended to be served would thereby be excluded from benefits, and second, that FHA experience has demonstrated that 100-percent loans can safely be made if the farms are adequate, the price paid is not excessive, the repayment terms are realistic and if good farming is done. The assets of borrowers obtaining direct loans thus far have in general been limited to essential household goods, work stock, tools, equipment, and perhaps a small amount of working capital. Converting any of these assets into cash to apply on a down payment on a farm weakens rather than strengthens the financial position of the borrower and lessens rather than enhances his chance of success.

The experience of the Farmers Home Administration suggests that the amount of down payment is not the most important consideration in determining the success or failure of a borrower and it should not be the decisive element in determining who shall receive loans and who shall not. It is probable that from a half to two-thirds of the successful farm-ownership borrowers of the past 12 years would have been deprived of the benefits of loans if they had been obliged to make 10-percent down payments.

Conceivably, the Congress might continue to make substantial authorizations for direct loans for the benefit of low-income farmers who are unable to make initial down payments without depleting their working capital or without resorting to excessive short-term credit. This might be done with the expectation that borrowers, able to make 10-percent down payments, will be served by insured mortgage loans. As a practical matter, however, this does not tend to happen.

If congressional action in recent years is to be accepted as indicative of a future course, direct appropriations will be held down with the expectation that necessary loan funds above such limited appropriations will be provided by private lenders. The most satisfactory solution to the problem, therefore, appears to be the elimination of the 10-percent down payment required for insured loans. Thus, the terms and conditions would become

identical for both direct and insured loans. Applicants could qualify for one as readily as for the other. They would receive exactly the same benefits and services regardless of whether they obtained their loans from private lenders or appropriated funds.

Private lenders should not be disturbed by this proposed liberalization of farm-ownership loan terms since they are fully protected by the Government's guarantee. The Government should not hesitate to guarantee 100-percent loans made by private lenders in conformance with established FHA policies, since results of the past 12 years indicate that 100-percent loans can safely be made. In fact, the Government is continuing to make them.

Availability of farms.—Having explored two of the factors affecting volume and continuity of farm-ownership loans without discovering insurmountable obstacles in the way of proceeding at a rate and on a scale that will achieve significant results, we come now to the third important factor—the availability of farms for purchase and enlargement or development at prices or costs in line with their earning capacity values. This to date has been an obstacle, defying satisfactory solution and impeding desirable progress. More precisely stated, the inhibiting factor has been the high cost of farm real estate.

There is no lack of farms in need of enlargement and development, no lack of land farmed under lease or under the plantation system that would be better farmed by owners of efficient family-type units. But farm real-estate prices have been the rub. When they started climbing steadily in 1942, the Congress began reducing farm-ownership appropriations. They were reduced from $50,000,000 in 1942 to $32,500,000 in 1943. In 1945 they dropped to $15,000,000. Because of veteran demands they were increased to $50,000,000 through 1946 and 1947. But thereafter they were reduced again to $15,000,000 annually.

Much can be said in defense of the policy of restricting loans when farm real-estate prices are high. There is not much doubt what the outcome would have been had the Government engaged extensively in making or insuring loans for the purchase of farms at the high prices prevailing just before the slump following World War I. Prices received by farmers for farm commodities during the 1930's would not have paid off debts incurred for the purchase of farms at the high prices prevailing during the late 1920's. In fact, had the farms cost much less in the 1920's, farmers could not have paid for them in the 1930's. With that object lesson vividly in mind, no one wanted to disregard its implications. No one wanted to make loans in the middle 1940's that could not be repaid or substantially reduced during the decade of the 1950's. Not only was there a legitimate concern for safeguarding the interest of farm purchasers, there was also a determination to avoid any further stimulation of farm real-estate prices by encouraging large numbers of farm purchases.

It is, of course, true that appraising farm real estate involves attempts to judge the future by the past. Using this standard of judgment, an attempt has been made to confine farm-ownership loans to those which could be repaid if farm commodity prices and farm expenses returned to the level of 1945–39. The appraisal policy of the Farmers Home Administration

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is a conservative one. Indeed, it is believed to be as conservative in its concept and application as that of private or cooperative lenders. Despite its restrictive influence upon volume of loans, the author urged its adoption by FHA and has steadfastly advocated conformance with it. It is now possible to judge the wisdom of the policy by looking backward a half dozen years. The middle 1940's, when loaning operations were curtailed because of the high farm real estate prices, was the most favorable period in a generation for paying for farms.

Farm-ownership borrowers who obtained loans during this period have made remarkable progress in the retirement of their debts. This has been true also of other farm purchasers. Hence, it now becomes necessary to confess that attempts to protect the interests of investors did not operate to the advantage of those who wanted to buy farms beween 1942 and 1949, but lacked the means for doing so.

There is another element in the farm real estate price cycle the effect of which is sometimes overlooked. It is common knowledge that farm real estate prices tend to fall after and because farm commodity prices have fallen. But it is not so generally realized that when corn, hogs, steers, cotton, butterfat, eggs, or other farm products are selling for very low prices, many farmers are unwilling to attempt to buy farms on credit even if farm land is low in price.

If we are to be realistic about it we must, therefore, ask ourselves frankly whether the farm-ownership program is merely a fair-weather program which can be operated on an effective scale only during those brief periods when farm real estate and commodity prices are definitely favorable to the purchaser who buys the farm on credit. If it is only such a fair-weather program it may be written off as a device which is incapable of serving in any large or significant way in remedying present evils of our system of farm tenancy.

As a practical matter, moreover, it is not probable that the program would be greatly expanded even during those periods, presumed to be quite favorable for buying farms on credit. For precisely during such periods difficulties are encountered in finding farms at fair and reasonable prices. In addition our legislative process is such that the amount appropriated for a year just past is likely to have more influence upon an appropriation for the coming year than the trend of the real-estate market. Even if this latter were not true, it is not practical in any event to administer a program subject to sharp alternate expansion and contraction. A competent staff cannot be recruited or maintained on such a fluctuating basis. The importance of this fact can easily be underestimated. The success of the farm-ownership program really depends in very large measure upon competent and experienced personnel, not a staff of temporary employees quickly assembled and inducted into office and soon terminated.

If the farm-ownership program is to serve the purpose for which it was designed it should, except during brief periods of extremely high prices occasioned by war or sporadic booms, operate continuously and on a scale that will really count. Loans must be made in substantial volume when farm real estate prices are high as well as when they are low. Granting

that appropriate exceptions would be made in periods of national emergency, fluctuations in the volume of loans due to normal ups and downs on the farm real estate market should be minor rather than major.

During a period of favorable years the program would naturally be accelerated somewhat and during a period of unfavorable years it would naturally be retarded somewhat, but a plotted curve reflecting such fluctuations should be undulating rather than jagged. Should farm real estate prices ever fall substantially below earning capacity values because of a general economic depression the program should be utilized to the maximum extent as a check against unwarranted deflation.

In implementing such a policy it would be necessary to apply conservative methods of evaluation which tend to protect purchasers and prevent the lending operations from contributing to inflationary tendencies. It would also be essential that the terms under which loans are repaid be flexible, conforming in general with the debt paying ability of borrowers.

The policy suggested above would not place the farming business in a special category distinct and separate from other lines of business. Rather it would apply to the farming business precisely the practices commonly employed by those who risk capital investments in other fields.

Failure to adopt a remedy commensurate with the problem appears to involve consequences far worse than those associated with any actual risks assumed in financing the continuous purchase of farms under farm-ownership policies. We can look at nations whose agriculture is much older than our own and see quite clearly that it would have been an act of wisdom and statesmanship to prevent, even at great monetary price, the inequitable distribution of land which has come about—particularly the overpopulation of land.

The difficulty is that the penalties for violating sound land tenure policies, severe and irrevocable as they may eventually be, are not apparent at the time the violations are committed. The baneful effects of letting nature take its course steal upon a nation like a creeping paralysis and when there is finally a realization of what has happened it may be too late to apply a remedy.

Fortunately, most parts of the United States are far from such a stage at the present time. But there are foreboding trends. Small and inadequate farms are increasing in number. So are very large farms. The number of medium family-sized farms is diminishing. For reasons presented in previous chapters, more substantial and valid than mere sentimentalism or adherence to a time-honored tradition, there is widespread conviction that the institution of family farm ownership should be preserved in this country. It is quite evident, however, that the means for doing so are deficient and inadequate. Substantial expansion of the farm-ownership program offers one feasible remedy.

Those who examine critically the proposal that loans be made continuously and in substantial volume despite normal fluctuations in farm real estate markets will no doubt render their verdicts largely on the basis of what is meant by conservative evaluations. Certainly, this means some modifications of commodity price schedules and cost items used in making

farm appraisals as contrasted with rigid adherence to prices prevailing during some stated period in the past, as for example 1935–39. It does not mean abandonment of realistic estimates of the prices likely to be received for products sold. In short, it means no abandonment whatsoever of the earning capacity approach to farm evaluation. It merely means the assumption of such calculated risks as may be involved in operating continuously on the normal farm real estate market.

If all the safeguards are applied to farm-ownership lending operations in the future which have been tested and found effective in the past, their influence should more than offset the hazards involved in continuous but conservative purchasing on prevailing farm real estate markets. At the same time two advantages would accrue from the calculated assumption of such additional risks as might be involved in continuous lending operations. First, the obstacle standing in the way of making farm-ownership loans in sufficient volume for effective results would be largely removed; second, more borrowers would benefit by selling products at high prices since more loans would be made when such prices are being paid. Under the variable-payment provision they would accumulate reserves during favorable periods which would tide them over lean years.

To further safeguard such a program there might well be created in the Department of Agriculture a standing committee for the special purpose of recommending prices that should be applied to commodities in estimating farm incomes and expenditures when appraisals are made. Lending agencies such as the Farm Credit Administration and the Farmers Home Administration should have representatives upon this committee. It should also include representatives of the Bureau of Agricultural Economics, not directly responsible for loaning public funds or administering cooperative loans, but the best equipped and most experienced agency of our Government in the agricultural-price-analysis field.

The price schedules recommended for commodities bought and commodities sold, if utilized by all agencies of the Department that appraise farms for any purpose, should introduce a desirable element of uniformity in farm evaluation. These schedules should help counteract inflationary trends and furnish useful data to persons outside of the Department who have occasion to estimate what the incomes from individual farms and the cost of operating them is likely to be.

In concluding this presentation of reasons why continuous lending on a substantial scale at prevailing farm real-estate prices is desirable, let us once again consider the alternatives. The choice, for those who remain on the land, is between a very unsatisfactory situation on the one hand and a remedy involving relatively small calculated risks on the other hand. The penalties for inaction are almost certain to be great when viewed from the standpoint of the million farm families in the United States who have small prospect of shaking off the shackles of poverty without the benefit of credit and assistance such as they obtain through the farm-ownership program. The chances of becoming the owner of an adequate family farm financed by a farm-ownership loan are vastly to be preferred to continuing in poverty for a lifetime, which is about the best that many share croppers, tenants, and

owners of inadequate and underdeveloped farms can hope for. It would be penny-wise and pound-foolish indeed not to trade a situation in which the odds are so strongly against success for one in which the odds are so strongly in favor of success. That is the alternative as it relates to individual families.

Viewed nationally, some risk, albeit a negligible one judged by experience to date, is involved in direct lending of public funds for farm purchases or in insuring loans made for that purpose by private lenders even with Farmers Home Administration safeguards. But leaving vast numbers of farm families in abject poverty and without purchasing power is both a human tragedy and a heavy millstone around the neck of the national economy, depriving business and industry of a considerable part of their potential market outlets. The lack of education which stems from this poverty is an incumbrance upon the efficient functioning of our democracy in peace and in war. The impairment of health which goes along with poverty threatens to undermine the vitality and vigor of oncoming generations. On the whole, therefore, the advantages appear to be greatly on the side of adopting remedial measures in keeping with the magnitude of the problem.

Preserving Farm-Ownership Farms

Up to now no effective plan has been devised for perpetuating the family farms that have been purchased, enlarged or developed with the proceeds of farm-ownership loans. Once an efficient family farm has been developed with appropriate buildings, well-laid-out fields, well-placed fences, well-established wood lots, orchards, etc., it has certain inherent tendencies to persist as a family farm. Evidences of this fact are visible in practically every farming community in every State and these evidencies are in general well supported by census data reflecting changes in numbers and sizes of farms in the United States. It is not easy to subdivide a family farm, build a second set of buildings on it and convert it into two separate establishments. Nor is it always possible to buy adjacent land in order to create a larger-than-family farm.

Despite the truth of the above assertions there are tendencies, more pronounced in some places and circumstances than others, to disestablish family farms after they have been established. Once a farm-ownership farm has been paid for its owner is free to subdivide it for the benefit of two or more of his children or he is free to purchase surrounding land and multiply its size, thus converting it from a family-type operation into a large-scale farm operation. The disconcerting fact is that the tendency to subdivide farm-ownership farms is most pronounced where subdivision is fraught with the direst consequences.

To enjoy the privileges of disposing of property at will or accumulating extensive holdings of land is altogether in keeping with established tradition. Ultimately, it may be necessary, however, to choose between some modification of that tradition with respect to farm-ownership farms and constantly losing part of the ground gained in creating family farms. The prospect of slipping backward even a small distance after several forward steps are taken is not appealing from a long-range point of view.

While experience in administering the farm-ownership program has brought the problem of preserving farm-ownership farms into focus, it has not revealed how that problem can best be solved. There are several provisions in the informal agreement entered into between farm-ownership borrowers and the Farmers Home Administration which bear directly on the point under discussion. Each farm-ownership borrower agrees (1) not to hire outside labor, except as necessary to carry out the provisions of his farm and home-management plan;[6] (2) not to rent his farm in whole or in part or operate it under a share-cropper arrangement; (3) not to rent or operate additional outside lands; (4) not to purchase additional land or sell any portion of his farm; (5) that in the event of unforeseen developments causing him to desire to sell his farm, to sell it to a buyer approved by the Farmers Home Administration; (6) that should it become desirable for some younger member of his family to take over and carry on the operation and management of his farm, he will try to work out an arrangement that will preserve it as a home for himself and maintain it also as a one-family farm.

The agreement from which the foregoing statements are quoted is an informal one to which it is understood that justifiable exceptions will be made. Undoubtedly, this agreement has served and will continue to serve a good purpose. Whether further measures will be needed or can be devised remains to be determined by future developments.

Summary of Observations and Conclusions

Significant observations and conclusions based upon experiences described in detail in this and preceding chapters indicate that:

1. The main preventable and curable causes of poverty on farms in the United States are (*a*) small and unproductive farms; (*b*) poor and inadequate farming equipment; (*c*) insufficient operating capital; (*d*) insecure tenure resulting in frequent and costly moves; (*e*) lack of education, technical knowledge, skills, and managerial ability; (*f*) a sense of inferiority which results in isolation and in nonparticipation in group activities.

2. The farm-ownership program, supplemented by and coordinated with the production loan program of the Farmers Home Administration, is a specific remedy for most of the foregoing causes of poverty on farms. It can contribute substantially to their alleviation and to the solution of the Nation's major land tenure problems. To do so, it must operate continuously and on a substantially expanded scale. From 30 to 40 thousand loans per year over the next quarter or third of a century are suggested as a minimum mark toward which to aim. With full utilization of the safeguards which have been found effective, the farm-ownership program can be operated on the scale proposed with risks and costs that are inconsequen-

[6] This provision is liberally interpreted. It is designed to keep each farming operation within the general bounds of a family-type enterprise. Elderly couples and young couples without children may employ labor to offset the deficiency caused by the lack of a typical family labor supply. Outside labor may be employed to meet planting, harvesting and other peak load requirements. The farm and home plan establishes the labor requirement in a general way and specific approval to employ sufficient labor to carry out the plan is not contemplated.

tial compared with the consequences of failing to act and letting our land tenure pattern evolve without direction or guidance.

3. Improving the terms and conditions of farm leases as a means of correcting some of the recognized evils of our land tenure system may well proceed simultaneously with the operation of an expanded farm-ownership program. The two approaches should be regarded as supplementary and not competitive. States have primary jurisdiction in the field of legislation related to farm leases. Progress in improving our leasing system has not been noteworthy during the past decade.

4. The character, integrity, and ability of the recipient of loans is a factor of primary importance in the success of the farm-ownership program. There are in the neighborhood of a million farm families in the United States who need loans and are now qualified to receive them or can qualify after a few years as production loan borrowers. County FHA committeemen have done a good job in passing upon the qualifications of applicants in the past and may be expected to do so in the future.

5. Before a loan is approved, an applicant should fully understand the obligations imposed by the acceptance of a loan as well as the benefits to be derived therefrom. Those obligations include a willingness to plan well, farm well, manage well, keep records of income and expenditures in books provided for that purpose by the Farmers Home Administration, and submit annual income returns summarizing each year's business. It takes both moral courage and diplomacy on the part of supervisors to live up to the implications of all that is involved in the matter of arriving at an understanding with borrowers before loans are made. Many difficulties stem from a failure to reach a clear understanding at the outset. The rewards for having reached a definite understanding are very great.

6. The farm and home plan is the keystone in the arch of good supervision. It not only points the way but provides the incentive by bringing into focus the borrower's reward for good farming and good management. The borrower family and the supervisor work together in developing the plan. It embodies the best ideas and judgment of both. The long-time plan looks well beyond the year just ahead. The annual plan outlines the immediate steps to be taken toward accomplishing longtime objectives.

Planning is a continuous process. It is never finished. Weather, pests, diseases, markets, prices, accidents, new varieties, new methods, new technological developments, and unforeseen developments of many kinds necessitate constant changes and revisions in plans but to argue that planning is futile for these reasons is like arguing that it is futile for the captain of a ship to chart his course at sea because unexpected storms may drive him from his course.

7. Record keeping goes hand in hand with planning. To derive the full benefits of either, both must be done. There are few farm-ownership families in which there is not some member who can learn to keep the Farmers Home Administration Farm Family Record Book. When it is not done, it is quite as likely to be because the supervisor doesn't consider it important, as it is to be because the borrower can't or won't keep a record. Experience has demonstrated that the advantages of a uniform record book, permitting

useful Nation-wide summaries and comparisons, outweigh the advantages of special books for different regions and different States. It would be much better not to keep records than to keep them and make no use of the information to be derived from them. This mistake has been made but it has been conclusively demonstrated that the rewards for record keeping are great when records are properly analyzed and studied.

8. Carried out in conformance with FHA policy, supervision encourages initiative, resourcefulness, and self-reliance on the part of borrowers and is generally welcomed and appreciated by them. It involves the principle of "the helping hand," which works satisfactorily only when the borrower is motivated by a desire and a willingness to help himself. Supervision should be concentrated during the early years of a loan while the borrower is perfecting his system of farming and his methods of farm management, home management, and money management. Thereafter, it should be tapered off as a personal service as rapidly as circumstances permit.

The sooner the borrower is able to carry on successfully without individual supervision the more successful the supervision has been. A few supervisors have assumed "straw boss" attitudes toward borrowers and this is, of course, resented. Another violation of good supervisory practice is that of merely visiting borrowers and pleasantly passing the time of day with them rather than actually helping them.

9. Events associated with closing a borrower's business at the end of one year and laying the ground work for the year that lies ahead, are of great importance in carrying out the precepts of supervised credit. Those events related to individual borrowers include closing and analyzing the farm and family record book; completing an annual inventory of assets and liabilities; submitting an annual income return; determining the amount of the borrower's payments on his debts; preparing a budget for the year ahead, which covers not only ordinary items of income and expense, but also extraordinary expenditures for tools, machinery, household furniture, property maintenance and repair; education of children, etc.; planning the crop and livestock program for the year ahead; meeting with other borrowers in the county or community to compare notes, study data based on analyses of record books and arriving at decisions affecting the welfare of all borrowers.

10. Taking advantage of group decisions which lead to action and capitalizing upon the powerful influence of group thinking upon the thinking and action of individuals is an essential part of good supervision. Annual business and educational meetings of borrowers offer a unique and extraordinary opportunity for gaining these advantages. Visits to colleges of agriculture and experiment stations, and well-planned and well-conducted tours for the purpose of observing developments on borrowers' farms or in borrowers' homes, are other examples of events which bring borrowers together under circumstances which influence their thinking and action.

11. A successful county supervisor must recognize bad farming and bad management when he sees it and not only know the remedy but be able to convince the borrower that it will be to his advantage to apply the remedy. The job is more important, involves greater responsibilities and requires greater ability than has been generally assumed. Some supervisors have

failed to measure up to the requirements of the position, but much progress has been made over the years in elevating professional standards, adjusting salaries more realistically, and recruiting and training a competent field staff.

12. An adequate farm on which a family of average size and of normal ability can make a satisfactory living is another prime requisite. Experience suggests that minimum specifications for adequate farm units deserve far greater emphasis than they have received from many professional agricultural workers. There are budgetary tests for determining adequacy. The use and application of such tests should be a part of the common knowledge of all agricultural workers who are concerned in any way with helping people to become established on farms or helping them to operate farms.

An adequate farm is as important a concept in the agricultural economy as "the living wage" is in the industrial field. It does not need to be precisely defined to serve its essential purpose. Such a farm should provide a decent living for a competent family of average size. It should provide an outlet for the labor supply of an average family and it should not be so large as to require the employment of any considerable amount of outside labor. In general, such farms will utilize a labor input equivalent to from one and one-half to two able-bodied men.

13. There are at least a million farms in the United States in need of enlargement or development and many farms operated under informal leases and under the share-cropper system which would be better farmed as adequate units operated by owners.

14. There should be no arbitrary legal limit on the price paid for an efficient family-type farm. The present legal limit is not an arbitrary one. While it restricts the investment in a farm-ownership farm to that in the average efficient family-type farm in the county, it is a judgment figure and imposes no harmful restrictions upon loans when properly interpreted and applied. Proper interpretations and application, however, have been far from universal. The tendency has been to include in the determination of county averages farms which are not efficient family-type farms.

The present legal limit properly applied will confine farm-ownership operations to the lower range in the total field of family farms. This is inevitable since the legal ceiling is an average figure, but there are logical reasons for assuming that farms established with some degree of public subsidy should not involve investments in excess of the investments in the average efficient family-type farm in the county.

15. The earning-capacity method of determining the value of the farm is sound when properly understood and applied, provided realistic prices are used in arriving at probable income and probable expenditures.

16. Putting farms in livable and operable condition at the start is a sounder precept for our age than the pioneer way of "doing without" until savings, accumulated the hard way, are sufficient to pay for a suitable house or an adequate barn or the needed machine which can do the work of many men. It is as important to invest capital well and wisely and use the goods or services obtained thereby as aids in getting ahead as it is to use good agri-

cultural practices. Underemployment and inefficient use of manpower on farms represent just as much national economic waste as a like amount of unemployment or underemployment in industry. A home in which the health, convenience, safety, and comfort of a borrower and his family are safeguarded, adds to the soundness of a loan because it provides an incentive for repaying the loan.

17. The true variable-payment plan in effect before the Bankhead-Jones Farm Tenant Act was amended in 1946 is superior to the prepayment reserve plan now in effect. A borrower is just as apt to experience a lean year before he has built up a prepayment reserve as he is after he has built up such a reserve, but under the present law he must make his full payment anyway. Under the original plan, borrowers demonstrated their willingness to pay more in prosperous years in order to enjoy the privilege of paying less in poor years. This experience suggests that denying the privileges of "less than schedule" payments to all borrowers who have not built up a prepayment reserve is an unnecessary and undesirable step backward in farm real-estate financing. If private lenders, whose loans are insured by the Farmers Home Administration, should be unwilling to accept less than scheduled payments of principal and interest annually the insurance fund might be used as a revolving fund with borrowers paying into it on a variable basis and lenders being paid from it on a fixed basis.

18. Distributing public loan funds and authorizations to insure loans made from private funds to the respective States, wholly on the basis of each State's percentage of farm population and prevalence of tenancy, requires modification to permit desirable program expansion. This is particularly true since the act has been amended to authorize enlargement and development loans. Prevalence of tenancy is not a measure of the need for such loans. In fact, it is not always a measure of the need for farm purchase loans. It appears, therefore, that not more than half the loan funds or authorizations to insure private loans should be distributed to the States on the basis of farm population and prevalence of tenancy and that the other half might well be distributed on the basis of need for loans and opportunity to make loans. When large reclamation projects are developed, like the Grand Coulee project in the State of Washington, there is need for more loan funds for a period of a few years than is permissible under the present legislation.

19. If the 10-percent down payment requirement now applicable in the case of all insured loans had been in effect from the beginning with respect to direct farm-ownership loans, the author believes that more than half the successful borrowers would have been unable to get loans. Looking to the future, if the 10-percent down-payment feature is retained, many farm tenants, farm laborers, share croppers, and owners of undersized and underdeveloped farms, who could succeed if they obtained loans, will be unable to get them. It is believed, therefore, that the 10-percent down payment requirement is both unnecessary and undesirable and that it should be eliminated so that those in greatest need may be served and so that direct loans and insured loans may be made under the same terms.

20. Since an amendment to the Bankhead-Jones Farm Tenant Act passed in 1946 authorized the Government to insure farm-ownership loans made by private lenders, a steadily increasing number of banks, insurance companies, and administrators of trust funds of various kinds have made such loans or indicated their intention of doing so. It appears, therefore, that a practical means has been provided for utilizing private capital in this field of farm purchase financing.

21. The State and county committee system developed by the Farmers Home Administration has served as an effective administrative balance wheel and safeguard against the potential evils of overcentralized bureaucratic control. It has inspired public confidence and secured for the program the benefits of local judgment and familiarity with local people and conditions.

Appendix A

CHRONOLOGY OF SIGNIFICANT EVENTS DIRECTLY OR INDIRECTLY RELATED TO PROGRAM AUTHORIZED BY THE FARMERS HOME ADMINISTRATION ACT OF 1946

July 21, 1932	The President approved an act of Congress appropriating 300 million dollars to be "loaned" to States for relief purposes.
May 12, 1933	The President approved an act of Congress appropriating 500 million dollars for relief purposes. Funds allocated to States on a "grant-in-aid" basis. Federal Government thus established precedent for cooperating with States and local governments in financing unemployment relief.
May 12, 1933	(48 Stat. 55) Federal Emergency Relief Administration established.
June 16, 1933	(48 Stat. 200) Civil Works Administration program inaugurated.
Jan. 1, 1934	Approximately 1 million farm families on relief rolls in United States.
Mar. 1, 1934	Harry L. Hopkins, Federal Emergency Relief Administrator, appointed Col. Lawrence Westbrook, Assistant Relief Administrator with responsibility for inaugurating a Nation-wide rural rehabilitation program.
Mar. 22, 1934	FERA Administrator Harry L. Hopkins directed State Emergency Relief Administrators to replace direct relief in rural areas with "a program of rural rehabilitation." Objective: "To make it possible for destitute persons eligible for relief in such areas to sustain themselves through their own efforts."
May, 1934	Critical developments in drought States practically monopolized attention and efforts of Federal Rehabilitation staff.
June 27, 1934	"Objectives and Suggested Procedure for Rural Rehabilitation" issued by Rural Rehabilitation Division of FERA. This publication laid the foundation for the general approach to rural rehabilitation followed thereafter.
Dec. 26, 1934	"Financial Policies and Procedures" (R. D. 22–a) governing rehabilitation fiscal practices issued by FERA.

July 1934 to April 1935	State Rural Rehabilitation Corporations organized in 43 States to administer grants for rural relief, land purchases, etc., from funds appropriated by Federal Emergency Relief Act of 1933 (48 Stat. 55), and supplementary appropriations.
Nov. 15, 1934 Feb. 15, 1935	Volume I, Nos. 1 and 2 of House Organ entitled "Rural Rehabilitation" issued by FERA. These publications provide insight into early concepts of rural rehabilitation.
Nov. 26, 1934	At meeting of Texas Rural Rehabilitation staff in Dallas, Spencer B. Cleland of Washington, D. C., FERA Rural Rehabilitation staff made first public presentation of farm and home plan forms, destined to become one of the basic instruments of supervised credit.
Apr. 20, 1935	Resettlement Administration established by Executive Order 7027. The land program and the Rural Rehabilitation program were transferred from FERA to the Resettlement Administration. (See Executive Orders 7028 and 7200.)
May 15, 1935	Subsistence Homesteads program transferred from Department of Interior to Resettlement Administration by Executive Order 7041 (Ex. RA 4).
July 1, 1935	Effective date of transfer of Rural Rehabilitation, Subsistence Homesteads and Land programs to Resettlement Administration.
Aug. 19, 1935	Congress appropriated funds for water facilities program. Certain administrative responsibilities in connection therewith assigned to the Resettlement Administration.
Jan. 1, 1937	Functions and duties of Resettlement Administration transferred to the U. S. Department of Agriculture in conformance with Executive Order 7530, dated Dec. 31, 1936.
Feb. 16, 1937	The President transmitted to the Congress the report of the "Special Committee on Farm Tenancy" whose recommendations, in part, were incorporated in the Bankhead-Jones Farm Tenant Act.
July 22, 1937	Bankhead-Jones Farm Tenant Act authorizing Secretary of Agriculture to make loans to farm tenants, farm laborers, share croppers, and others to enable them to acquire farms approved by the President.
Aug. 28, 1937	The President approved the Pope-Jones Act authorizing a permanent program for water facilities.
Sept. 1, 1937	Secretary of Agriculture issued memorandum 732 changing name from "Resettlement Administration" to "Farm Security Administration" and delegating the Administrator thereof responsibility for performing functions vested in him in titles I–II and IV of the Bankhead-Jones Farm Tenant Act.
Sept. 1, 1937	Secretary of Agriculture issued memorandum 733 transferring Land Utilization program and functions vested in him in title III of the Bankhead-Jones Farm Tenant Act to the Bureau of Agricultural Economics.

Mar. 1, 1943	Secretary of Agriculture issued memorandum 1075 establishing an Agricultural Labor Administration in the Department of Agriculture under a Director of Agricultural Labor responsible to the Secretary and transferred to it mobile and permanent labor centers theretofore under Farm Security Administration.
Mar. 18, 1943	House of Representatives adopted H. Res. 119, "A Resolution Creating a Select Committee to Investigate the Activities of the Farm Security Administration."
July 12, 1943	Department of Agriculture Appropriation Act 1944 (57 Stat. 392) directed Secretary to use State Rehabilitation Corporation funds only for same purposes as for appropriations for "Loans, Grants, and Rural Rehabilitation."
Feb. 16, 1944	Memorandum from Frank Hancock, Administrator of Farm Security Administration, to Col. Philip G. Bruton, Director of Labor, transferring to the Office of Labor all service functions in connection with the Farm Labor program being performed by the Farm Security Administration.
May 9, 1944	Select committee submitted its report on the activities of the Farm Security Administration and recommended legislation. This recommended legislation was the forerunner of "The Farmers Home Administration Act of 1946."
Aug. 14, 1946	Farm Security Administration and Emergency Crop and Feed Loan Division of the Farm Credit Administration abolished; Bankhead-Jones Farm Tenant Act amended and Farmers Home Administration created, with responsibility for administering the farm-ownership program, production loan program and water facilities program. The amended Bankhead-Jones Farm Tenant Act specifically authorized enlargement and development loans and insured mortgage loans.
Aug. 14, 1946	(60 Stat. 1062) Farmers Home Administration Act directed the Secretary to liquidate the trusts under the transfer agreements with the several State Rural Rehabilitation Corporations.
June 19, 1948	The President approved Public Law 720 increasing interest rate on farm-ownership loans, providing for the redemption of nondelinquent insured mortgages, and for other purposes.
June 10, 1949	President signed Public Law No. 99 which increased water facilities loan limit from $50,000 to $100,000.
July 15, 1949	The President signed the Housing Act of 1949 (Public Law No. 171).
Oct. 19, 1949	The President approved the Homestead Entrymen Act (Public Law No. 361) which authorizes farm-ownership or water-facilities loans to settlers on public lands or reclamation projects and provides for deferment of first payment on such loans for a period not to exceed 2 years.

Appendix B

PROVISIONS OF THE BANKHEAD-JONES FARM TENANT ACT, AS AMENDED, PERTINENT TO THE FARM OWNERSHIP PROGRAM [1]

Power of Secretary

SECTION 1. (a) The Secretary of Agriculture (hereinafter referred to as the "Secretary") is authorized to make loans and to insure mortgages in the United States and in the Territories of Alaska and Hawaii and in Puerto Rico to persons eligible to receive the benefits of this title to enable such persons to acquire, repair or improve family-size farms, or to refinance indebtedness against undersized or underimproved units when loans are being made or insured by the Secretary to enlarge or improve such units. Loans may also be made to assist borrowers under this title in making the improvements needed to adjust their farming operations to changing conditions.

(b) (1) Except with respect to veterans qualified under subsection (b) (2) of this section, only farm tenants, farm laborers, share croppers, and other individuals (including owners of inadequate or underimproved farm units) who obtain, or who recently obtained, the major portion of their income from farming operations, shall be eligible to receive the benefits of this title. In making available the benefits of this title, the Secretary shall give preference to persons who are married, or who have dependent families, and, wherever practicable, to persons who are able to make an initial down payment, or who are owners of livestock and farm implements necessary successfully to carry on farming operations. No person shall be eligible who is not a citizen of the United States.

(2) Any veteran (defined herein as a person who served in the land or naval forces of the United States during any war between the United States and any other nation, and who shall have been discharged or released therefrom under conditions other than dishonorable) who intends to engage in farming as a principal occupation, and who meets the requirements of rules and regulations prescribed by the Secretary as to industry, experience, character, and other assurances of success as farmers, shall be eligible for the benefits of this title and their applications shall be entitled to preference over those of nonveterans.

(c) No loan shall be made, or mortgage insured, for the acquisition, improvement, or enlargement of any farm unless it is of such size and type as the Secretary determines to be sufficient to constitute an efficient family-type farm-management unit and to enable a diligent farm family to carry on successful farming of a type which the Secretary deems can be carried on successfully in the locality in which the farm is situated: *Provided,* That loans may be made to veterans, or mortgages insured for veterans, as defined

[1] Codified for this book by Howard V. Campbell, office of the Solicitor, U. S. Department of Agriculture.

in section 1 (b) (2) hereof, who have pensionable disabilities, to enable such veterans to acquire, enlarge, repair, or improve farm units of sufficient size to meet the farming capabilities of such veterans and afford them income which, together with their pensions, will enable them to meet living and operating expenses and the amounts due on their loans.

Functions of County Committees

SEC. 2. (a) The county committees established under section 42 shall—

(1) Examine applications (filed with the chairman of the county committee, or with such other person as the Secretary may designate) of persons desiring to obtain the assistance of the Secretary in financing the acquisition of farms or farming operations in the county as provided in this act; and

(2) Examine and appraise farms in the county with respect to which applications are made.

(b) If the committee finds that an applicant is eligible to receive the benefits of this act, that, in the opinion of the committee, by reason of his character, ability, industry, and experience, he will successfully carry out undertakings required of him under a loan which may be made or insured under this act, that credit sufficient in amount to finance the actual needs of the applicant, specified in the application, is not available to him at the rates (but not exceeding the rate of 5 per centum per annum) and terms prevailing in the community in or near which the applicant resides for loans of similar size and character from commercial banks, cooperative lending agencies, or from any other responsible source; and that the farm with respect to which the application is made is of such character that there is a reasonable likelihood that the making or insuring of the loan with respect thereto will carry out the purposes of this title, it shall so certify to the Secretary. The committee shall also certify to the Secretary the amount which the committee finds is the fair and reasonable value of the farm based upon its normal earning capacity. The farm shall be appraised by competent employees of the Secretary thoroughly trained in appraisal techniques and the appraisal shall be made available to the county committee and the Secretary for their guidance in determining the value of the farm as specified above.

(c) No member of the committee shall participate in any certification under his section with respect to any application or farm in which such member, or any person related to such member within the third degree of consanguinity or affinity has any pecuniary interest, direct or indirect, or in which any of them had such interest within one year prior to the date of certification.

(d) No loan shall be made for any purpose under this act and no mortgage shall be insured under this act, unless certification by the committee, as required under this section, has been made with respect to the applicant applying for the loan and with respect to the farm which is to be taken as security either for an insured or an uninsured mortgage.

Terms of Loans

SEC. 3. (a) Loans made under this title shall be in such amount (not in excess of the amount certified by the county committee to be the value of the farm) as may be necessary to enable the borrower to acquire the farm and for necessary repairs and improvements thereon, and shall be secured by a first mortgage or deed of trust on the farm. Loans may not be made

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for the acquisition or enlargement of farms which have a value, as acquired, enlarged, or improved, in excess of the average value of efficient family-type farm-management units, as determined by the Secretary, in the county, parish, or locality where the farm is located.

(b) The instruments under which the loan is made and security given therefor shall—

(1) Provide for the repayment of the loan within an agreed period of not more than 40 years from the making of the loan;

(2) Provide for the payment of interest on the unpaid balance of the loan at the rate of 4 per centum per annum;

(3) Provide for the repayment of the unpaid balances of the loan, together with interest thereon, in installments in accordance with amortization schedules prescribed by the Secretary;

(4) Be in such form and contain such covenants as the Secretary shall prescribe to secure the payment of the unpaid balance of the loan, together with interest thereon, to protect the security, and to assure that the farm will be maintained in repair, and waste and exhaustion of the farm prevented, and that such proper farming conservation practices as the Secretary shall prescribe will be carried out;

(5) Provide that the borrower shall pay taxes and assessments on the farm to the proper taxing authorities, and insure and pay for insurance on farm buildings;

(6) Provide that upon the borrower's assigning, selling, or otherwise transferring the farm, or any interest therein, without the consent of the Secretary, or upon default in the performance of, or upon any failure to comply with, any covenant or condition contained in such instruments, or upon involuntary transfer or sale, the Secretary may declare the amount unpaid immediately due and payable, and that, without the consent of the Secretary, no final payment shall be accepted, or release of the Secretary's interest be made, less than five years after the making of the loan; and

(7) Contain the provisions for refinancing specified in section 44 (c).

(c) Except as provided in paragraph (6) of subsection (b), no instrument provided for in this section shall prohibit the prepayment of any sum due under it.

(d) No provision of section 75, as amended, of the act entitled "An act to establish a uniform system of bankruptcy throughout the United States," approved July 1, 1898 (U. S. C. 1940 ed., title 11, sec. 203), otherwise applicable in respect to any indebtedness incurred under this title by any beneficiary thereof, shall be applicable in respect of such indebtedness until such beneficiary has repaid at least 15 per centum thereof.

Equitable Distribution of Loans and Mortgage Insurance

SEC. 4. In making loans and insuring mortgages under this title, the amount which is devoted to such purposes during any fiscal year shall be distributed equitably among the several States and Territories on the basis of farm population and the prevalence of tenancy, as determined by the Secretary: *Provided,* That there may be distributed to each State such amounts as are necessary to insure mortgages or finance loans pursuant to all bona fide applications from veterans qualified under section 1 hereof: *Provided further,* That there may be disbursed in any fiscal year to each State or Territory such amount not in excess of $100,000 as is determined by the Secretary to be necessary to finance loans in such State or Territory under this title.

Appropriation

SEC. 5. To carry out the provisions of this title with respect to tenant-purchase loans, there is authorized to be appropriated not to exceed $50,000,000 for each fiscal year beginning with the fiscal year ending June 30, 1947, and such further sums as may be necessary in carrying out the provisions of this title during such fiscal year, with respect to tenant-purchase loans and insured mortgages.

Farm Tenant Mortgage Insurance Fund

SEC. 11. (a) There is hereby created a fund, to be known as the "farm tenant-mortgage insurance fund" (hereinafter in this title referred to as the "fund"), which shall be used by the Secretary as a revolving fund for carrying out the provisions of this title with respect to mortgages insured under section 12 and to mortgages accepted for the account of the fund under section 13. There is authorized to be appropriated to the Secretary the sum of $25,000,000 to constitute such fund.

(b) Moneys in the fund not needed for current operations shall be deposited with the Treasurer of the United States to the credit of the fund or invested in direct obligations of the United States or obligations guaranteed as to principal and interest by the United States. The Secretary may purchase, with money in the fund, any notes issued by the Secretary to the Secretary of the Treasury to obtain money for the fund.

(c) All amounts deposited in or credited to the fund and the proceeds of investments of amounts in the fund shall be used only for purposes to which the fund is specifically authorized to be devoted under this title and shall not be diverted to any other use.

(d) The Secretary shall include in his annual report a complete statement with respect to the status of the fund.

Insurance of Mortgages

SEC. 12. (a) The Secretary is authorized, upon application of a prospective mortgagor or mortgagee under a first mortgage eligible for insurance under this title, to insure such mortgage and to make commitments for the insurance of any such mortgage prior to the date of its execution.

(b) The aggregate amount of principal obligations on all mortgages insured under this title, on all mortgages with respect to which commitments to insure have been made, and on all mortgages accepted for the account of the fund and not disposed of under section 14 shall not exceed $100,000,000 in any one fiscal year. With respect to any fiscal year, the amount available for insurance, commitments, and acceptance of mortgages under this title shall be distributed among the several States and Territories on the basis provided in section 4 and preferences shall be given to mortgages executed by veterans qualified under section 1.

(c) In order for a mortgage to be eligible under this title—

(1) the person obligated to pay thereunder shall be a person who would be eligible under section 1 for a loan under title I;

(2) the farm mortgaged shall be one with respect to which under section 1 (c), a loan could be made under title I;

(3) there shall be an appropriate certification by the county committee as required by section 2 of this act;

(4) the mortgage instruments shall comply with section 3 (b), except that the base rate of interest shall be 3 per centum per annum;

(5) the principal obligation (and fees and other charges chargeable under subsection (d) of this section) shall not exceed 90 per centum of the reasonable value of the farm and necessary repairs and improvements thereon, as such values are certified by the county committee pursuant to section 2 (b);

(6) the mortgage instruments shall contain a covenant to pay to the Secretary the initial and annual charges provided for in subsections (d) and (e) of this section, and a covenant to pay to the Secretary, as collection agent for the mortgagee, the amounts payable by the mortgagor to the mortgagee under the mortgage; and

(7) the mortgage instruments shall contain a stipulation (not binding upon the Secretary) that the holder of the mortgage will accept the benefits provided by section 13 in lieu of any right of foreclosure which he may have against the property and any right to a deficiency judgment against the mortgagor on account of the mortgage.

(d) The Secretary shall require the payment by the mortgagor or mortgagee of such initial fees for inspection, appraisal, and other charges as it finds necessary and such amounts may be included in the principal obligation of the mortgage, and the payment of such delinquency charges and default reserves as it finds necessary. The proceeds of such fees shall be deposited in the Treasury for use for administrative expense as provided in subparagraph (e) (2) hereof.

(e) (1) The Secretary shall collect from the mortgagor for mortgage insurance an annual charge at the rate of 1 per centum of the outstanding principal obligation of the mortgage; the initial charge shall be collected simultaneously with the insurance of the mortgage and shall cover the period from the date of loan closing to the date of the first installment payable on the loan; the next and each succeeding charge shall be computed on the outstanding principal obligation remaining unpaid after the due date of each installment payable on the loan, and shall be payable on or before the next succeeding due date of an installment of principal and interest. If the principal obligation of the mortgage is paid in full in less than 5 years after the time when the mortgage was entered into, the Secretary may require payment by the mortgagor of the entire annual charge computed for the year then current, and an additional charge equal to the annual charge for such year. The Secretary may modify existing contracts so as to require future payments thereunder in accordance with the provisions of this section.

(2) One-half of the amount paid as charges in pursuance of this subsection shall be the premium for insurance and shall be deposited in the fund and may be used only for purposes to which the fund may be devoted. The other half of the amounts so paid shall be deposited in the Treasury to the credit of the Secretary and shall be available only for administrative expenses to carry out the provisions of this title, relating to mortgage insurance.

(f) (1) The Secretary shall promptly remit to the mortgagee under any mortgage insured under this title any sums collected by it as agent for the mortgagee. The Secretary shall promptly advise any such mortgagee of any default by the mortgagor.

(2) If the mortgagor has failed to pay to the Secretary the full amount of any installment on or before the due date thereof, the Secretary shall pay promptly the unpaid amount of such installment of principal and interest to the mortgagee, less the amount of any previous prepayments except

payments from proceeds from the voluntary or involuntary sale of any part of the mortgaged property or from royalties from leases under which the value of the security is depreciated.

(3) If the mortgagor fails to pay any amounts due for taxes, special assessments, water rates, and other amounts which may become liens prior to the mortgage, and any amounts due for property insurance premiums, such amounts may be paid by the Secretary, either before or after assignment of the insured mortgage to the Secretary, for the account of the mortgagor as provided in paragraph (4) below.

(4) Payments by the Secretary under paragraphs (2) and (3) shall be advanced out of the fund for the account of the mortgagor. Such advances shall be repaid to the fund out of the first available collections received from the mortgagor. Such advances shall bear interest at the rate fixed in the insured mortgage payable out of any subsequent collections, and, until repaid, the advance and interest thereon shall be added to subsequent installments.

(g) Any contract of insurance executed by the Secretary under this section shall be conclusive evidence of the eligibility of the mortgage for insurance, and the validity of any contract of insurance so executed shall be incontestable in the hands of any holder thereof from the date of the execution of such contract, except for fraud or misrepresentation of which such holder has actual knowledge.

(h) The Secretary may, at any time, for good cause shown and under such terms and conditions as he may prescribe, consent to the release of the mortgagor from his liability under the mortgage or the credit instruments secured thereby, or consent to the release of parts of the mortgaged property from the lien of the mortgage.

(i) The holder of any mortgage insured under this title may, upon notice to the Secretary, assign such mortgage together with the accompanying note and contract of insurance and the assignee thereof shall thereupon become entitled to all the benefits of such contract of insurance: *Provided,* That no such assignment shall be binding upon the Secretary until notice thereof has been given the Secretary and the Secretary has acknowledged receipt of such notice.

(j) The Secretary is authorized to enter into agreements from time to time with the holder of a mortgage heretofore or hereafter insured under this title that any holder thereof, at the holder's option, shall be entitled, upon assignment of such mortgage to the Secretary within one year after the expiration of a period fixed by such agreement, to have the mortgage purchased by the Secretary even though the mortgage is not then in default, provided the initial fixed period shall be not less than 5 years from the date of the insured mortgage. Such assignment shall be accomplished in the same manner and the value of such mortgage shall be determined on the same basis as provided by section 13 for mortgages in default. The Secretary may purchase any such mortgage with moneys in the fund and may sell it at its value likewise determined in accordance with section 13 at the time he sells it, and reinsure it, if necessary, or he may retain it for the account of the fund until the indebtedness is discharged through refinancing by the mortgagor, by foreclosure, or otherwise. The value of all such mortgages retained for the fund as herein provided shall not be included in computing the aggregate amount of mortgage obligations that may be insured in any one fiscal year, as provided in section 12 (b). If there should not be sufficient cash in the fund to enable the Secretary to make payments to purchase mortgages as

provided in this subsection, in order to obtain funds to make such payments notes may be issued and purchased in the same manner as provided in section 13.

Payment of Insurance

SEC. 13. (a) In any case in which the mortgagor under a mortgage insured under section 12 is in default for more than 12 months, the mortgagee shall be entitled to receive the benefit of the insurance as hereinafter provided, upon assignment to the Secretary of (1) all the mortgagee's rights and interests arising under the mortgage so in default; (2) all claims of the mortgagee against the mortgagor or others, arising out of the mortgage transaction; (3) all policies of title or other insurance and all surety bonds and other guaranties and any and all claims thereunder relating to the mortgage or the mortgaged property; (4) any balance of the mortgage loan not advanced to the mortgagor; and (5) any cash or property held by the mortgagee, or to which he is entitled, as deposit made for the account of the mortgagor and which has not been applied in reduction of the principal of the mortgage indebtedness; and upon transfer to the Secretary of such originals or copies of records, documents, books, papers and accounts relating to the mortgage transaction, as the Secretary prescribes. Upon such assignment and transfer, the Secretary shall pay to the mortgagee, in cash, an amount equal to the value of the mortgage and the note and mortgage shall thereupon become a part of the fund. For the purposes of this subsection, the value of the mortgage shall be determined, in accordance with rules and regulations prescribed by the Secretary, by adding to the amount of the original principal obligation of the mortgage which was unpaid on the date of default, the amount of all unpaid interest and the amount of all payments which have been made by the mortgagee for taxes, special assessments, water rates, and other payments in discharge of liens which are prior to the mortgage, and insurance on the property mortgaged, and by deducting from such total amount any amount received on account of the mortgage indebtedness after such default.

(b) If there should not be sufficient cash in the fund to enable the Secretary to make payments to mortgagees as provided in subsection (a) of this section, the Secretary may make and issue notes to the Secretary of the Treasury to obtain funds to make such payments. Such notes shall be signed by the Secretary or by his duly authorized representatives and shall be negotiable. Such notes shall bear interest, payable semiannually, at a rate equal to the average rate of interest, computed to the end of the calendar month next preceding the date of issue, borne by all interest-bearing obligations of the United States then forming a part of the public debt, and shall have such maturities as the Secretary may determine with the approval of the Secretary of the Treasury.

(c) The Secretary of the Treasury is authorized to purchase any notes issued by the Secretary pursuant to this section and any renewals thereof and for such purchases may use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which such securities may be issued under such act, as amended, are hereby extended to include any such purchases. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes shall be treated as public debt transactions of the United States.

(d) In any case in which the mortgagor violates any covenant or condition of his mortgage, the Secretary may require the mortgagee to assign

such mortgage, together with the incidents thereto, upon payment of the value of the mortgage determined in accordance with this section.

Procedure With Respect to Mortgages in Default

SEC. 14. (a) Upon accepting the assignment of an insured mortgage, the Secretary shall ascertain whether or not the mortgagor (which term as used in this section shall include the mortgagor or his heirs or assigns) desires to remain in possession of the mortgaged property. If the mortgagor does not desire to remain in possession of the mortgaged property or if the Secretary is unable to make the findings prescribed by the next sentence, the Secretary may proceed to foreclose the mortgage. If the mortgagor desires to remain in possession of the mortgaged property and if the Secretary finds that the mortgagor (1) has made reasonable efforts to meet all defaulted payments and to comply with the other covenants and conditions of his mortgage and (2) will probably be able to meet such defaulted payments within 5 years after the maturity date or dates of the defaulted payments, the Secretary may enter into an agreement with the mortgagor providing for the payment of such defaulted payments together with interest thereon, at such times not later than 5 years after the maturiy date or dates as the Secretary may deem to be within the probable future means of the mortgagor. Should any mortgagor with whom the Secretary has entered into such agreement thereafter fail to meet any payments, the Secretary may proceed to foreclose the mortgage. Expenses and fees incident to foreclosure may be advanced out of the fund for the account of the mortgagor.

(b) Amounts realized under section 51 on account of property which was subject to an insured mortgage shall be deposited in the fund. Amounts payable by the Secretary under section 50 with respect to such property, and any necessary costs and expenditures for the operation, preservation, and protection of such property, shall be paid out of the fund.

Insured Mortgages Eligible as Investments

SEC. 15. (a) The first paragraph of section 24, chapter 6, of the Federal Reserve Act, as amended (U. S. C., 1940 ed., title 12, sec. 371) (relating to loans on farm lands by member banks), is hereby amended by inserting after the words "National Housing Act," the following: "or which are insured by the Secretary of Agriculture pursuant to title I of the Bankhead-Jones Farm Tenant Act."

(b) Section 35 of chapter III of the act entitled "An act to regulate the business of life insurance in the District of Columbia," approved June 19, 1934 (D. C. Code, 1940 edition, title 35, sec. 535), is amended by inserting in paragraph (3a) after the words "Federal Housing Administrator" the following: "or by the Secretary of Agriculture pursuant to title I of the Bankhead-Jones Farm Tenant Act."

Title IV of the Bankhead-Jones Farm Tenant Act, as Amended

SEC. 41. For the purposes of this act, the Secretary shall have the power to—

(a) Appoint (without regard to the civil-service laws or the Classification Act of 1923, as amended) such experts as may be necessary in carrying out the provisions of this act: *Provided*, That the Administrator of the Farmers' Home Administration shall be appointed by the President, by and with the

advice and consent of the Senate. . . . The Secretary shall also have the power to appoint, subject to the provisions of the civil-service laws, such other officers and employees as may be necessary and fix their compensation in accordance with the Classification Act of 1923, as amended. . . .

(b) The Secretary may administer his powers and duties under this act through such area finance, State, and local offices in the United States and in the Territories of Alaska and Hawaii and in Puerto Rico as he determines to be necessary. . . .

(c) Accept and utilize voluntary and uncompensated services, and with the consent of the agency concerned, utilize the officers, employees, equipment, and information of any agency of the Federal Government, or of any State, Territory, or political subdivision.

(d) Within the limits of appropriations made therefor, make necessary expenditures for personal services and rent at the seat of government and elsewhere; contract stenographic reporting services; purchase and exchange of supplies and equipment, lawbooks, books of reference, directories, periodicals, newspapers, and press clippings; travel and subsistence expenses, including the expense of attendance at meetings and conferences; purchase, operation, and maintenance, at the seat of government and elsewhere, of motor-propelled passenger-carrying and other vehicles; printing and binding; and for such other facilities and services as he may from time to time find necessary for the proper administration of this act.

(e) Make contracts for services and purchases of supplies without regard to the provisions of section 3709 of the Revised Statutes (U. S. C., 1934 ed., title 41, sec. 5) when the aggregate amount involved is less than $300.

(f) Acquire land and interests therein without regard to section 355 of the Revised Statutes, as amended. This subsection shall not apply with respect to the acquisition of land, or interests in land under title III.

(g) Compromise or adjust claims and adjust and modify the terms of mortgages, leases, contracts, and agreements entered into or administered pursuant to this act as circumstances may require, in the following manner:

(1) Compromise of claims of $10,000 or more must be effected by reference to the Secretary of the Treasury or to the Attorney General, pursuant to the provisions of section 3469 of the Revised Statutes (U. S. C., 1940 edition, title 31, sec. 194);

(2) Claims of less than $10,000 may be compromised or may be adjusted or reduced on the basis of a reasonable determination by the Secretary of the debtor's ability to pay and the value of the security and with or without the payment of any consideration at the time of such adjustment; releases from personal liability may also be made with or without the payment of any consideration at the time of adjustment of—

(A) Borrowers who have transferred their farms to other approved applicants under agreements assuming the outstanding indebtedness to the Secretary under this title; and

(B) Borrowers who have transferred their farms to other approved applicants under agreements assuming that portion of their outstanding indebtedness to the Secretary which is equal to the earning capacity value of the farm at the time of the transfer, and borrowers whose farms have been acquired by the Secretary, in cases where the county committees certify and the Secretary determines that the borrowers have cooperated in good faith with the Secretary, have farmed in a workmanlike manner, used due diligence to maintain the security against loss, and otherwise fulfilled the covenants incident to their loans, to the best of their abilities;

(C) No compromise or adjustment shall be made upon terms more favorable than recommended by the appropriate county committee established pursuant to section 42 of this act;

(3) Any claim of $100 or less, which has been due and payable for 3 years or more, and where the debtor has no assets from which the claim could be collected or is deceased and has left no estate, or has been absent from his last known address for a period of at least 2 years and his whereabouts cannot be ascertained without undue expenses, may be charged off or released by the Secretary upon a report and favorable recommendation of the employee of the Administration having charge of the claim: *Provided,* That claims of $10 or less may be canceled and released whenever it appears to the Secretary that further collection efforts would be ineffectual or likely to prove uneconomical; and

(4) At the end of each fiscal year the Secretary shall report to Congress the names of all persons against whom claims in excess of $1,000 have been compromised, the address of such person, the nature of the claim, the amount of the compromise, and the reason therefor.

(h) Collect all claims and obligations arising or administered under this act, or under any mortgage, lease, contract, or agreement entered into or administered pursuant to this act and, if in his judgment necessary and advisable, pursue the same to final collection in any court having jurisdiction. All legal work arising out of such claims and obligations, including, but not limited to, the prosecution and defense of all litigation, is authorized to be performed, as determined by the Solicitor of the Department of Agriculture, through the Department of Justice, by attorneys of the Office of the Solicitor of the Department of Agriculture, or by local counsel approved by the Solicitor of the Department of Agriculture, whose fees, upon approval by the Solicitor, shall be paid the Secretary; and

(i) Make such rules and regulations and such delegations of authority as he deems necessary to carry out this act.

County Committees

Sec. 42. (a) The Secretary is authorized and directed to appoint in each county in which activities are carried on under this act a county committee composed of three individuals residing in the county, at least two of whom shall be farmers residing on a farm and deriving the principal part of their income from farming. In making the first appointments pursuant to the amendments made by Farmers' Home Administration Act of 1946, the Secretary shall designate one member of each committee to serve for a period of 1 year, one member to serve for a period of 2 years, and one member to serve for a period of 3 years. All subsequent appointments shall be for a 3-year period. The Secretary may appoint an alternate for each member of each committee who shall have the same qualifications and be appointed for the same term as such member. The members of each committee shall elect one member to serve as chairman. Members of the committees and their alternates shall be removable for cause by the Secretary.

(b) Each member of the committee shall be allowed compensation at the rate of not to exceed $5 per day while engaged in the performance of duties under this act. The number of days per month that each member may be paid shall be determined and approved by the Secretary. In addition, they shall be allowed such amounts as the Secretary may prescribe for necessary traveling and subsistence expenses. The compensation and expenses of the committee members and their alternates shall be paid by the Secretary.

(c) The committee shall meet on the call of the committee chairman, or on the the call of such other person as the Secretary may designate. Two members of the committee shall constitute a quorum. The Secretary shall prescribe rules governing the procedure of the committees, furnish forms and equipment necessary for the performance of their duties, and authorize and provide for the compensation of such clerical assistants as he deems may be required by any committee.

(d) Committees established under this act shall, in addition to the duties specifically imposed under this act, perform such other duties under this act as the Secretary may require of them, or as may be delegated to them by the Secretary.

Special Conditions and Limitations on Loans

SEC. 44. The Secretary, under this act—

(a) Shall make no loan—

(1) To any corporation or cooperative association;

(2) Unless the appropriate county committee certifies in writing that the applicant is eligible to obtain such loan and that, in the opinion of such committee, he will honestly endeavor to carry out undertakings and obligations required of him under a loan which may be made by the Secretary;

(3) To any person, unless the applicant represents in writing, and it is administratively determined by the Secretary, after a certification to such effect by the appropriate county committee, that credit sufficient in amount to finance the actual needs of the applicant is not available to him at the rates (but not exceeding the rate of 5 per centum per annum) and terms prevailing in the community in or near which the applicant resides for loans of similar size and character from commercial banks, cooperative lending agencies, or from any other responsible source;

(4) For the carrying on of any land-purchase or land-leasing program, or for the purpose of carrying on any operations in collective farming, or cooperative farming, or for the organization, promotion, or management of homestead associations, land-leasing associations, land-purchasing associations, or cooperative land-purchasing for colonies of rehabilitants and tenant purchasers, except for the liquidation as expeditiously as possible of any such projects heretofore initiated.

(b) . . .

(c) Shall, in the case of every loan, require in the loan and security instruments that if at any time it shall appear to the Secretary that the borrower may be able to obtain a loan from a production credit association, Federal land bank, or other responsible cooperative or private credit source at rates (but not exceeding the rate of 5 per centum per annum) and terms for loans for similar periods of time and purposes prevailing in the area in which the loan is to be made, the borrower shall, upon request of the Secretary, apply for and accept such loan in sufficient amount to repay the Secretary and to pay for any stock necessary to be purchased in the cooperative lending agency in connection with the loan.

Transfer of Lands to Secretary

SEC. 45. The President may at any time in his discretion transfer to the Secretary any right, interest, or title held by the United States in any lands acquired in the program of national defense and no longer needed therefor, which the President shall find suitable for the purposes of this act, and the

Secretary shall dispose of such lands in the manner and subject to the terms and conditions of this act.

Transactions With Corporations

SEC. 46. Nothing in this act shall authorize the making of any loan or the sale or other disposition of real property or any interest therein, other than interests in coal, oil, gas, or other minerals, to any private corporation, except in furtherance of liquidation pursuant to section 43, or the leasing of mineral interests to corporations or individuals from time to time in accordance with policies established by the Secretary of Agriculture.

Variable Payments

SEC. 48. The Secretary shall require annual payments in installments sufficient to pay any obligations or indebtedness to him under this act within the term of such obligation or indebtedness. The Secretary shall provide a method whereby a borrower may pay any obligation or indebtedness by a system of variable payments under which a surplus above the required installment for any year may be paid in periods of above-normal income and employed to reduce payments below the required annual payment in subsequent periods of subnormal income. Any advance payments to the Secretary shall not affect the obligation to pay the required annual installment during periods of normal or above-normal income.

Set-Off

SEC. 49. No set-off shall be made against any payment to be made by the Secretary to any person under the provisions of this act, by reason of any indebtedness of such person to the United States, and no debt due to the Secretary under the provisions of this act shall be set off against any payments owing by the United States, unless the Secretary shall find that such set-off will not adversely affect the objectives of this act.

Taxation

SEC. 50. (a) All property which is being utilized to carry out the purposes of title I of this act (other than property used solely for administrative purposes) shall, notwithstanding that legal title to such property remains in the Secretary, be subject to taxation by the State, Territory, district, dependency, and political subdivision concerned, in the same manner and to the same extent as other similar property is taxed.

(b) All property to which subsection (a) of this section is inapplicable which is held by the Secretary pursuant to this act shall be exempt from all taxation now or hereafter imposed by the United States or any State, Territory, district, dependency, or political subdivision, but the Secretary shall make payments in respect of any such property in lieu of taxes.

Bid at Foreclosure

SEC. 51. The Secretary is authorized and empowered to bid for and purchase at any foreclosure or other sale, or otherwise to acquire property pledged or mortgaged or conveyed to secure any loan or other indebtedness

owing to or acquired by the Secretary under this act; to accept title to any property so purchased or acquired; to operate for a period not in excess of one year from the date of acquisition, or lease such property for such period as may be deemed necessary to protect the investment therein; and to sell or otherwise dispose of such property in a manner consistent with the provisions of section 43 of this act.

Penalties

SEC. 52 (a) Whoever makes any material representation, knowing it to be false, for the purpose of influencing in any way the action of the Secretary upon any application, discount, purchase, or repurchase agreement, contract of sale, lease or loan, or any change or extension of any of the same by renewal, compromise, adjustment, deferment of action or otherwise, or the acceptance, release or substitution of security therefor, shall, upon conviction thereof, be punished by a fine of not more than $2,000 or by imprisonment for not more than 2 years, or both.[2]

(b) Whoever, being employed in any capacity by the Secretary, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to the Secretary or pledged or otherwise entrusted to him; or (2) with intent to defraud the Secretary, or any body politic or other corporation, or any individual, or to deceive any officer, auditor or examiner of the Secretary, makes any false entry in any book, report or statement of, or to, the Secretary, or draws any order, or issues, puts forth or assigns any note or other obligation or draft, mortgage, judgment or decree thereof; or (3) with intent to defraud the Secretary, participates or shares in or receives directly or indirectly any money, profit, property, or benefits through any transaction, loan, commission, contract or any other act of the Secretary shall, upon conviction thereof, be punished by a fine of not more than $5,000 or by imprisonment for not more than five years, or both.[2]

(c) Whoever willfully shall conceal, remove, dispose of, or convert to his own use or that of another, any property mortgaged or pledged to, or held by, the Secretary as security for any obligation, shall, upon conviction thereof, be punished by a fine of not more than $2,000 or by imprisonment for not more than 2 years, or both.[2]

(d) Whoever conspires with another to accomplish any of the acts made unlawful by the preceding provisions of this section shall, upon conviction thereof, be subject to the same fine or imprisonment, or both, as is applicable in the case of conviction for doing such unlawful act.[2]

Fees and Commissions Prohibited

SEC. 53. No officer, attorney, or other employee of the Secretary shall, directly or indirectly, be the beneficiary of or receive any fee, commission, gift, or other consideration for or in connection with any transaction or business under this act other than such salary, fee, or other compensation as he may receive as such officer, attorney, or employee. No member of a county committee established under section 42 shall knowingly make or join in making any certification prohibited by section 2 (c). Any person violat-

[2] These provisions were repealed by Public Law 772, 80th Cong., 62 Stat. 862, approved June 25, 1948, effective September 1, 1948. The provisions relating to penalties are now covered by secs. 371, 657, 658, 1001, 1006, and 1014 of title 18 U. S. C., Crimes and Criminal Procedure.

ing any provision of this section shall, upon conviction thereof, be punished by a fine of not more than $2,000 or imprisonment for not more than 2 years, or both.

Extension of Territories

SEC. 54. The provisions of this act shall extend to the Territories of Alaska and Hawaii and to Puerto Rico. In the case of Alaska and Puerto Rico, the term "county" as used in this act shall be deemed synonymous with Territory, or any subdivision thereof as may be designated by the Secretary, and payments under section 33 of this act shall be made to the Governor of the Territory or to the fiscal agent of such subdivision.

Appendix C

LIST OF BASIC FARM OWNERSHIP FORMS [1]

Form FHA–197—Application for FHA Services.
Form FHA–596—Earning Capacity Report.
Form FHA–491—County Committee Certification.
Form FHA–643—Farm Development Plan.
Form FHA–43—Appraisal of Buildings for Insurance.
Form FHA–668—Loan Agreement and Request for Funds.
Form FHA–190—Promissory Note.
Form FHA–14C—Long-time Farm and Home Plan.
Form FHA–14—Farm and Home Plan (Annual).
Form FHA–528—Annual Income Return.
Form FHA–473B—Loan Record Card.
Form FHA–676—Statement of Farm Ownership Account.
Form FHA–359—Borrower-Insurer-Lender, Triple Agreement.

[1] Copies of the above forms may be obtained from the Farmers Home Administration.

INDEX

Abandonments, actions resulting, 292–295
Abercrombie, A. F.—
  farming system changes, 229–232
  status at time of receiving loan, 227
  summary of annual income return, 227–228
Activities, first year summarized, 25
Administrator, F. S. A., approval of plan for F. O. administration, 17
Agreement—
  between borrower and lender—
    effects, 352
    need, 109
  with borrower, comments, 112
  See also Side agreements.
Alabama, new loan limitation plan tested, 180–181
Alexander, Dr. Will. W., testimony on loan limitation, 169–170
Amendments to Bankhead-Jones Farm Tenant Act—
  by—
    Fred Biermann, 7
    Gerald J. Boileau, 5
    Harry B. Coffee, 6
    Tom Connally, 8
    Fred L. Crawford, 6
    John W. Flannagan, 7
    Marvin Jones, 5, 6, 7
    Geo. H. Mahon, 5, 6
    Malcolm C. Tarver, 7, 8
  compromises, 15
  development loans, 12, 13
  disabled veterans, 13
  enlargement loans, 12
  farm appraisals, 13
  in F. H. A. Act of 1946, 11–16
  insured mortgages, 12
  interest rate, 14
  limiting investments, 14
  opposition by Scott W. Lucas, 6
  proposed by—
    John H. Bankhead, 11
    Josh Lee, 11
    Stephen Pace, 11
  purchase of insured mortages, 11
Amendments to Bankhead-Jones Farm Tenant Act—Continued
  refinancing, 15–16
  regulating distribution of funds, 14
  rejection by House, 5–7
  variable payment, 14
American Farm Bureau Federation, resolution on ownership of farms, 1
American Indians, loans, 105–106
Americans of foreign ancestry, loans in Hawaii, 104–105
Annual borrowers' meetings. *See* Meetings, annual borrowers'.
Annual Income Return—
  of A. F. Abercrombie, 227–229
  See also Income.
Applicants—
  comprehension of terms, 107–113
  eligibility, 88–93
  interest in reasons for rejection, 113–115
  rejection notice, 114–115
Applications—
  approval and disapproval, 113–114
  life of, 99
  number—
    not indicative of need for F. O. loans, 99
    received in relation to loans made, 99
Appraisals. *See* Farm appraisals.
Appropriations—
  amendments by Senator Tom Connally, authorizations, 9
  influence of real estate prices, 163–164
Architectural services, need, 24–25
Attorney, regional, determination types of estates, 25

Balance sheet, overall, 319–323
Baldwin, C. B., testimony on loan limits, 169–170
Bankhead, John H., Senator—
  co-author of B.–J. F. T. Act, 178
  participation in debate on B.–J. F. T. Act, 8
  review of history of B.–J. F. T. Act, 2

Bankhead, William B., Congr., support to B.-J. F. T. Act, 3
Bankhead-Jones Farm Tenant Act—
amendments—
codification—
title I, 360–367
title IV, 367–373
later, 9
rejection, 5–8
debate in—
House, 2–8
Senate, 8–9
evaluation by Select Committee, 11
explanation by Congr. Marvin Jones, 2
history reviewed by Senator John H. Bankhead, 2
interpretations and elaborations, 120–122
loan limits, 165–168
loans—
numbers, 1937–38, 184
recommendations of committee, 101
origin in national tradition, 1
provisions re.—
appraisals, 155–156
type of farms, 117–118, 119–120
speech by Wm. B. Bankhead, 3
statement by Walter Pierce, 2
unamended for 9 years, 9
Beltrami Island Farms Project, acreage, 19
Bid at foreclosure, 371–372
Biermann, Fred, Congr., amendment to Act, 7
Black, Dr. John D.—
plan for fixing loan limits, 179–180
statement on farm enlargement loans, 138–139
statement on technical help and credit, 79–80
Boileau, Gerald J., Congr., amendments to B.-J. F. T. Act, 5, 6
Bookkeeping. *See* Record; Records.
Borrower—
agreements with lender—
comments, 110–112
need, 109
text, 110
case load, influence of loan expansion, 343–348
construction of buildings, 200–202
See Record books; Records, borrower.
Borrowers—
attitudes—
of wives, 304
toward farm ownership program, survey, 299–314
balance sheet, overall, 319–323
case load, number of borrowers per county supervisor, 341–342
comprehension of terms, 107–110
condition, Dec. 31, 1948, statistics, 325
contract violations, 294–295
death, results, 292–293
distressed, help, 293–294
failures—
causes and losses, 330–335
factors, 87
favorable to program, attitudes, 305–310, 312–313, 318–319
gains in net worth, 327
health requirements, 191
income. *See* Income of borrowers.
investment, 154–155, 165–168
meetings, annual, 238, 241
payments—
by geographic areas, 325–327
in full, and on, behind, and ahead of schedule, 324–325
percentage in various tenure groups at acceptance, 100
progress—
gains in net worth, 325–327
influence of high prices, 330
record of Mr. and Mrs. Raymond G. Blair, 317–318
records, 319–330
repayments, 325
statements by individuals, 318–319
rehabilitation, qualifications, 22
schedule status—
by States, 321–323
definition, 289-290
success factors, 75–76
supervision, examples cited, 211–241
survey. *See* Bureau of Agricultural Economics survey.
tenant-purchase, percent from various tenure groups, 100
unfavorable to program, attitudes, 310–312
Brannan, Charles F., Secretary—
opinion of B.-J. F. T. Act, vii
testimony on development loans, 137–138

Brannan, Charles F., Secretary—Con.
testimony on enlargement loans, 137–138
Budget, administrative, first F. O., 17
Budgetary tests of farm operation, 353
Building standards, Farmers Home Corp. Bd., policy, 36–37
Buildings—
construction—
and repair standards, 193–194
by borrower, 200–201
by contract method, 201–203
old, destruction policy, 205–206
Bureau of Agricultural Economics survey—
borrower attitudes, 229–313
F. H. A. comment on, 315–316
interview with favorable borrower, 305–310
interview with unfavorable borrower, 310–312
method, 298
summary of findings, 314–315

California, farms in Central Valley, study, 70–71
Cannon, Clarence, Congr., re. loan limit in Callaway County, Mo., 171
Capital, private, availability for loans, 355
Catholics, views on family farms, 2
Chambers County, Ala.—
annual borrowers' meetings, 238–241
improvements by borrowers, 238
records, analysis, 232–237
Chattels, exclusion from price of farm, 32–33
Chronology, historical data, 357–359
Coffee, Harry B., Congr., amendment limiting loans, 6
Colleges of agriculture, visits by borrowers, 352
Columbia University seminar, statement re. transfers of farms, 338–339
Commission, prohibition, 372–373
Committee on Farm Tenancy—
purpose, 2
report, 2
Committeemen, County—
alternate members, 16
compensation, 16
non-farmer members, 16
term of service, 16
Committees—
County—
activites coordinated, 54–56
appointment, 65
compensation, 66
councils superseded by, 57
eligibility, 65
evaluation, 355
functions, 60–65
help to distressed borrowers, 293–294
history, 51–58
merged into councils, 55–57
minutes of formal actions, 37–38
provisions, 369–370
selection of families, 351
term of office, 66
training, 65–68
Debt Adjustment—
abolishment opposed, 53–54
appointment, 53
history, 52–53
superseded by F. H. A. committees, 53–54
evaluation, 39–41, 355
philosophy regarding, 39–41
State F. H. A.—
advice sought on average value of efficient farms, 180
appointment, 23, 48–49
compensation, 49
evaluation, 355
functions, 44–48
history, 41–44
meetings, 50
rotation abolished, 49
system, value, 355
term of office, 49
training, 48–51
See also County Advisory Councils.
Congress, initial action re. land tenure, 2
Connally, Tom, Senator—
amendment re. F. O. loans, 9
citation re. low interest rates on farm purchase loans, 8
Construction—
by borrower, 200–201
by contract method, 201–203
contract and force account, comparison, 202
influence of World War II, 203–204
instructions, 200–201
minimum standards, 191

Construction—Continued
progress, interruption by war, 203–204
See also Buildings; Dwellings; Housing.
Contract—
change provisions, 291–292
comparison with force account, 202
violations, 295
Cooley, Harold D., Congr.—
explanation of supervisory provision of B.-J. F. T. Act, 7
letter re. second dwelling, 204–205
Cooperative Federal Land Bank System, operation, 69
Corn Belt, survey, 71–72
Corporations, transactions, 371
Costs of owned dwellings, 206–209
Country Gentleman, statement of Ladd Haystead, 339
County—
agricultural agents, advice re. average value of family farms, 180
supervisors, advice re. average value of family farms, 180
County Advisory Councils—
appointment, 55–56
functions, 55–56
termination, 57
County Farm Debt Adjustment Committees, history, 52–53
County Farm Ownership Committee, 54–55
County Farm Security Committee, 54
Crawford, Fred L., Congr., proposal re. appropriation for loans, 6
Credit—
inability to procure, condition of loans, 83–84
supervised—
letter by Frank Hancock, 244–245
letter by Dillard B. Lasseter, 245–246
year-end activities, 352

Death—
actions resulting, 292–293
survivorship rights, 280–281
Debt Adjustment Committee, 52–53
Debts, compromising, 15
Development loans. *See* Loans, development.
Directors of extension, advice re. average value of efficient farms, 180
Discrimination—
manifestations, 100–101
political and religious grounds, 100–101
racial factor, 100–101
regulation, 88
Down payments. *See* Payments, down.
Dwellings—
on F. O. farms—
cost, 206–209
typical plans, 206–209
owned, costs, 209
second—
on F. O. farms, 204–205
transfer, 204–205
See also Buildings; Construction; Housing.

Engineering services, need, 24–25
Enlargement loans. *See* Loans, enlargement.
Estates—
policy, 25
types, 25
Expenditures of borrowers, 327–328
Experience, capitalizing, 337–355
Experiment stations, visits to, influence on borrowers, 352

F. H. A. *See* Farmers Home Administration.
F. O. *See* Farm ownership.
Failures—
causes and resulting losses, 330–335
factors, 87–88
See also Liquidations.
Families—
discussion, 87–88
eligibility for F. O. loans, 88, 91–93
farm ownership—
administrative problem, 98–100
applicant for loan, understanding, 107–113
desire for F. O. loans, 98–100
discrimination forbidden, 100–106
eligibility for loans, 88, 91–93
failure. *See* Failures; Liquidation.
rejection, 113–115
in U. S., number eligible for F. O. loans, 93
income and tenure status, 94–97
information re. availability of F. O. loans, 97–98
need of F. O. loans, 343–345

Families—Continued
number applying for F. O. loans, 98–100
qualified, in need of loans, 343–345
selection by county committees, 351
Farm—
and home management plans, regulation, 91
appraisals—
aids to judgment, 155–156
based on simple principle, 155
effects, 347–348
form used by F. H. A., 156–159
help to buyer and seller, 154–155
legal requirements, 13–14
method, 156–159
not an exact science, 155
price schedules for, 158–163
specialists consulted, 161
use of long-time commodity prices, 161–163
views regarding, 163
census, basis for determining average value of farms in counties, 167
debt adjustment, 52–53
definition for census purpose, 94
management, importance, 21
ownership—
accounts, classes—
extra payments, 289
refunds, 289
regular payments, 289
borrowers. *See* Borrowers.
families. *See* Families.
farms. *See* Farms.
loans. *See* Loans.
program. *See* Program.
tenant, mortgage insurance fund, 363.
value, determination, 353
Farm Management Division, B. A. E., advisory services, 22
Farm Ownership Committee, 54
Farm Ownership Division, periodic reports, 23–24
Farm Ownership Program, expansion, benefits, 339–340
Farm Tenant Security Project—
farms taken over by F. O., 21
similarity to F. O. program, 21
Farmers Home Administration, responsibility for Housing Act of 1949, 20
Farmers Home Administration Act—
events related, 357–359
passage and amendments, 11–16
Farmers Home Administration Act—Continued
See also Amendments to Bankhead–Jones Farm Tenant Act.
Farmers Home Corporation Board—
action, 33–38
approval of variable payment plan, 254–255
decision re.—
share croppers on F. O. farms, 33–35
variable payments, 33
discussion re. State committees, 33
establishment of loan limits, 30–32
first meeting, 17–18
functions, 27–28
labor policy, 37
meetings, 29–30
members, 27, 29
personnel changes, 29–30
policy re.—
building standards, 36
committee minutes, 37–38
loans to Negroes, 35–36
powers, 27–28
Farmers Union on family-type farms, 1
Farmhouses. *See* Buildings; Construction; Dwellings; Housing.
Farms—
acquired—
management and disposition, 295–296
through 1947, 123
acquisition—
by development, 134–141
by enlargement, 134–141
methods, 134–135
adjustment to labor supply, 129
availability—
for purchase, 135–136
in relation to volume of loans, 345–349
condition at time of occupancy, 189–190, 353–354
creation by subdividing large holdings, 141–154
definition by—
Farmers Home Administration, 118–119
representatives of Protestant groups, 119–120
description and evaluation, 353
development and improvement policy, 194–195, 200

Farms—Continued
discussion, 117–122
earning capacity value, determination, 353
efficient family-type, definition, 118–119
enlargement, 134–141
family, evaluation by economists, 70
family-type units required, 117–121
foreclosures, 293–295
improvement and development—
discussion, 189–209
policy, justification, 190
investment and returns, 123
investment, limitations, 154–155, 165
large and small, relative efficiency, 71–72
legal requirements, 117–118
limiting value to county average, 13–14
livable and operable, basic policy, 189–190
maintenance provision, 281–282
need of enlargement and development, 136–141, 353
number—
acquired by borrowers, 126
and size, by kinds, 126
in U. S., 127
of borrowers—
requirements, 85
selection, 134
operation by owners vs. tenants or share croppers, 353
preservation, need, 128–129, 349–350
purchase, 130–134
purchased with loans, type, 85
ready made, availability, 135–136
repossessed, management, 295–296
selection—
by F. H. A. employees, 134–135
criteria, 130, 132
policy, 194–195
statement of Ladd Haystead, 339
study in Central Valley of California, 70–71
subdividing, methods used, 152–154
transfers—
annual, 338, 340
circumstances, 295–296
Columbia Univ. Seminar, 338–339
facilitated by second dwellings, 204–205
See also Holdings, large; Plantations.
Fatherree, T. B., letter re. subdividing large land holdings, 153–154
Federal register, county loan limits published, 183
Federal Emergency Relief Administration—
experience utilized, 18
Rehabilitation Advisory Committee, 51–52
Federal Farm Loan Act—
of 1916, 1
type of loan, 69
Fees, prohibition, 372
Fiscal year, discussion, 274
Flannagan, John W., Jr., Congr., proposal re. farm payments, 7
Foreclosures—
bid, 371–372
case cited, 294–295
causes, 293–295
Forms, F. O. basic, list, 374
Fund, farm tenant mortgage insurance, 363
Funds, distribution, recommendations, 354

Gifts, prohibition, 372
Goss, Albert S., on owner operation of farms, 1
Grace period, discussion, 290
Greenwood, Arthur H., Congr., comment on B.-J. F. T. Act, 5
Group decisions, facilitation by annual meetings of borrowers, 352

Hale, Frederick, Senator, comment re. eminent domain, 8
Hammurabi, King of Babylon, variable payment code, 251
Hancock, Frank—
comment on F. O. borrower agreement, 113
letter re. supervision, 244–245
recommendations re. loan limits, 170–172
recommended elimination of loan limit, 171
statement on loan limitation, 171
Hawaii—
large holdings, subdividing, 152
loans, 105
program inauguration, 24
See also University of Hawaii.

Haystead, Ladd, statement re. keeping youth on land, 339
Health—
condition, cause of loan liquidations, 333
provisions, 191
Hill, F. F., views re. variable payments, 253–254
Holdings, large—
subdividing—
acres in multiple unit plantations, by States, 144
importance in plantation area, 141–142
in Hawaii, 152
in Puerto Rico, 150–151
statement by Malcolm C. Tarver, 149–150
subdivisions, number and size in plantation area, 150
See also Farms; Plantations.
Home management, importance, 21
Hope, Clifford, Congr., comment on B.-J. F. T. Act, 5, 7–8
Horan, Walt., Congr., comment on supervision, 248
House of Representatives, Bankhead-Jones F. T. Act debated, 2–3, 5–8
Houses, F. O., characteristics, 197
Housing—
construction and repair, minimum standards, 191
on resettlement projects, 20
rural, pioneering, 197–198
rural, policies, 200
standards, flexibility, 193–194
See also Buildings; Construction; Dwellings.
Hudgens, R. W., letter to B. A. E. requesting survey, 297–298
Huff, Corby—
better living, 226–227
farm plat, 214
farm purchased, 211–212
financial progress, 222–223
good farming results, 223, 226
long-range plan, 212, 214–218
operations record, 222
plan, annual, 219
program, crop and livestock, 214–216
Hughes, Stephen C., request to determine loan limit, 180
Illness, cause of loan liquidations, 335
Improvements—
cost, comparison with land, 167–168
on farm ownership farms, 200
policy re. cost, 167
See also Land improvements.
Income—
family, 94–96
of borrowers—
and expenditures in 1948, 328–329
before acceptance and in 1948, 328
determination, 274
distribution, formula, 261–262
equivalents, 328, 330
of laborers, 96
See also Annual Income Return.
Indians, American, loans, 105–106
Inflation, land prices, control, 159–161, 163–164
Inspections of F. O. farms, 281–282
Insurance—
fire, discussion, 282–287
life—
policies, means of securing loans, 287–289
use by borrowers, 287–289
mortgage—
benefits, 11–12
bills by Josh Lee and Marvin Jones, 11–12
lenders, private, use of system, 274–275
payment provisions, 366–368
terms, 363–366
property—
amount carried on F. O. farms, 283
causes of damage, 283
conventional and replacement amount, 283
Dec. 31, 1949, 283
in Northeastern States, problem, 286–287
replacement—
discussion, 283
report of special committee, 285
use by Resettlement Admin., 283–284
titles, 277–279
Interest—
collection, 289–291
payments, relation to cost of supervision, 342–343
rates, statement by Tom Connally, 8

Investments—
insured mortgages, 367
of borrowers, 154–155, 165–167
Jefferson, Thomas, exponent of family farms, 1
Jones, Marvin—
co-author of B.–J. F. T. Act, iv
comment on proposed amendment, 5, 6, 7
explanation of B.–J. F. T. Act, 2
foreword, iii–iv

Kardex control, record, 282

Labor—
policy, Farmers Home Corp. Bd., 37
supply, adjusting operations to, 129
Laborers—
average income, 96
eligibility for loans, 96
income, 96
number eligible for F. O. loans, 96
number in U. S., 96
Land—
development policies, problems, 194–197
improvement standards, flexibility, 193–194
improvements, minimum requirements, 192–193
leasing by borrowers, 129–130
titles. *See* Titles.
transfer to Secretary, 370–371
Land Grant Colleges, family-type farms, statement on, 1
Lasseter, Dillard B.—
comment on B. A. E. survey, 298
controls by Congress favored, 178
definition of supervision, 82
letter re. supervision and good farming, 246
letter to State directors on loan limit, 184–185
memorandum on refinancing loans, 15–16
proposed loan limitation plan adopted, 173
recommendations on loan limits, 173, 176
suggestions re. language on loan limits, 176
testimony on supervision, 246–249
Leases—
farm, relation to F. O. loans, 351
of securities, 291–292
Leasing by borrowers, 130
Lemke, Wm., Congr., comment on B.–J. F. T. Act, 5
Lenders—
agreements with borrowers—
comments, 109–110
need, 109
text, 110–111
private, use of variable payment, 274–275
Life insurance, use by borrowers, 289–290
Liquidations—
causes, June 30, 1949, cumulative, 334
causes, discussion, 333–335
Lincoln, Abraham, agreement with founding fathers, 1
Loan—
applications, 1937–38, statistics, 102
first made, 18
funds, distribution recommendations, 354
limit, $12,000, exception, 183–187
limits—
administrative—
and legal, comparison, 181
exceptions, 183
letter of Dillard B. Lasseter, 184–185
summary, of State director's views, 185–186
appropriation acts, 167–168
changes, 166–168
conclusions, 353
discussion, 165–187
effects, 165–167, 173, 186
elimination, opinions, 169–172
establishment basis, 177–180
establishment, F. H. A. Act of 1946, 182–183
letter by Clarence Cannon, 171
limiting investments, 177–182
new, testing suitability, 180–182
original Act, 165–166
opposition by States, 171–172
proposal by Dillard B. Lasseter, 173, 176
publication in Federal Register, 183
questions by Jamie L. Whitten, 176
recommendations by Frank Hancock, 170–171
statement by Paul V. Maris, 172–173
statements by Malcolm C. Tarver, 168–170, 173, 175–177

Loan—Continued
limits—Continued
testimony by Will W. Alexander, 169–170
testimony by C. B. Baldwin, 169–170
under B.–J. F. T. Act, 165–166
upper and lower, 165–187
upper, fixed in 1946, 182–183
upper, maintenance, 166–167
liquidations, causes, 333–335
Loans—
applications—
discussion, 98–100
number by years, 98
availability, 97–98
development—
number, 140–141
testimony by Secy. Charles F. Brannan, 137–138
direct, by years and payments required, 1937–49, 320
distribution of public funds, 354
enlargement—
and development, authorized, 138–140
farms needing, number, 140
letter by Frank Hancock, 137
number and amount, 1938–48, 126–127
statement by John D. Black, 138–139
testimony by Asst. Secy. Charles F. Brannan, 137–138
Farm Ownership—
discussion, 340–343
distinctive features—
based on earning capacity of farms, 85
credit from other sources not available, 83
down payments, 73–74, 76–77
farms operable at start, 85
land tenure policy implemented, 69, 72–73
limited to family farms, 85
supervision, 78–83
variable payments, 85, 251–275
eligibilty, 83–84, 88, 91–93
expansion feasibility, 340–343
factors affecting, 75–76
influence on farm transfers, 340
need for, 17
Loans—Continued
Farm Ownership—continued
number, forecast, 339
principal and interest collection, 289–291
purposes, 72–73
refinancing, 291
restrictions, 281
supervision, 78–83
upper and lower limits, 165–187
volume and continuity factors affecting, 340–343
for enlargement and development of farms—
authority, 138–140
need, 137
insured—
down payment required, disadvantage, 354
effect on availability of private capital, 355
interest—
collection, 289–291
rate, change, 14
limitations, special, 370
made under B.–J. F. T. Act, 102
making and servicing, aspects, 277–296
percentage, recommendations of committee, 102
principal, collection, 289–291
qualified families, 343–345
refinancing, 15–16, 291
restrictions, specific, 281
special conditions, provisions, 370
tenant purchase—
appropriation, 363
number and amount, 1938–48, 126–127
terms—
comprehension, 107–109
provisions, 361–362
to Americans of foreign descent in Hawaii, 105
type under Federal Farm Loan Act, 69
unpaid portions, securing by insurance policies, 287–289
volume—
and continuity, factors affecting, 340–343
influence of real estate prices, 345–349

Long range plans, Corby Huff's, 212–219
Lucas, Scott W., Congr., limitation on Farm Ownership loans, 6–7

Mahon, George H., Congr., amendments to B.–J. F. T. Act, 5, 6
Maris, Paul V.—
  memo on variable payments, 272–273
  statement on loan limitation, 172–173
  testimony on price limitation, 175–177
  views on—
    record keeping, 351–352
    supervision, 352
    understanding with borrowers, 351
Meetings, annual borrowers'—
  comments, 241, 243
  description of Chambers County meeting, 238–241
  purpose and nature, 238
Mills, Newt V., Congr., statement on back-to-land movement, 6
Mineral rights—
  policy, 279–280
  sales proceeds, distribution, 292
  titles, 279–280
Mississippi—
  loan limitation plan tested, 180–182
  plantation subdivision, 153–154
  recommendations, 181–182
Missouri—
  loan limitation plan tested, 180
  recommendations, 181
Mortgage insurance. *See* Insurance, mortgage.
Mortgage Insurance Act, comparison with National Housing Act, 11
Mortgages—
  in default, procedure, 367
  insured, eligible as investments, 367
Mosher, M. L., report, 71–72
Multiple units—
  area by States, map, 144
  See also Farms, subdividing; Holdings, large, subdividing; Plantations, subdividing.
Myer, Dillon S., letter re, soil conservation plans, 196

National Farmers Union on family-type farms, 1
National Housing Act, comparison with Mortgage Insurance Act, 11
Negroes—
  annual meeting, report, 238–241
  applicants for loans, Southern States, 1937–38, 103
  applications, comparison with whites, 103
  farms, 104
  loans, comparison with loans to whites, 103
  loans, goals, 103–104
  tenants and borrowers, comparison, 102

Obligations assumed by borrowers, 107–110
O'Mahoney, Joseph C., Senator, amendment to B.–J. F. T. Act, 9
Organization, initial Farm Ownership program, 23–24
Ownership, farm. *See* Farm; Farms.

Payments—
  classes, 289
  down—
    conclusions, 354
    effect on insured borrowers' eligibility, 344
    insured mortgage, 344
  property insurance losses, 283
  set-off, 371
  variable—
    administrative problems, 266–271
    advantages summarized, 255
    agreement, enforcement, 262–264
    amendment, Board's suggestion, 258–259
    amendment, Paul V. Maris' memo., 272–273
    amendment wording, 272–273
    approval by Farmers Home Corp. Bd., 254–255
    conclusion, 354
    conformance with amendment, 272
    decision by Farmers Home Corp. Bd., 33
    determination, 259–261
    discussion, 251–275
    distinctive feature, 85
    Hammurabi's code, 251
    interpretation of Act, 252
    legal authorization, 251–252
    legal enforcement, 262–263
    option withdrawal, 259
    origin, 252–253

Payments—Continued
variable—Continued
plan—
based on net income, 253–255
change to prepayment, 271–273
comparison with prepayment, 354
operation, 264–266
preliminary, 252–253
revisions, 253–255, 259–260, 271–273
system, 33
provision, amendments, 14–15
provisions of Act, 371
results, appraisal, 264–266
statement by F. F. Hill, 253–254
system, authorization, 251–252
transfer, 259
use by private lenders, 274–275
Penalties, provisions, 372
Pierce, Walter, Congr., report on consideration of B.-J. F. T. Act, 2
Plans, farm and home annual, Corby Huff's, 219–222
Plantation—
area subdivision, 141–142
See also Farms; Holdings, large.
Plantations, subdividing—
advantages, 148–149
authority, 149
instruction, 149
need foreseen, 24
See also Holdings, large, subdividing.
Plum Bayou Project, acreage, 19
Policies, basic, formulated first year, 18
Policy making, centralized function in F. H. A., 88
Pope, James P., Senator, accounting simplification, 9
Poverty on farms—
causes, 350
specific remedy, 350–351
Prepayment—
plan, comparison with variable payment, 354
reserve plan, authorization, 271–273
Price—
cycle, 345–349
schedules—
commodity, U. S. D. A. committee, 348
commodity, use in farm appraisals, 347–348
determination, 161–163
development, 158–159
Prices—
family-type farms, 353
inflation, control, 159–161, 164
influence on appropriations, 163–164
influence on borrower progress, 345–346
real estate—
cycle, 345–349
influence on appropriations, 163–164, 345
influence on volume of loans, 345–349
See also Farm appraisals.
Principal, collection, 289–291
Program—
evaluation, basis, 337–355
expansion proposals, 343–345
relation to changes in farming systems, 340
relation to farm poverty, 350–351
relation to land tenure problems, 350
rural rehabilitation techniques, 21
scale and continuity of operation, recommendations, 340–345
Projects. *See* under specific names of projects.
Protestants, views of family farms, 1
Puerto Rico—
large holdings, subdividing, 141, 150–152
program inauguration, 24
See also University of Puerto Rico.

Rankin, John E., Congr., objection to borrower supervision, 7
Real estate—
prices. *See* Prices, real estate.
titles. *See* Titles.
Record—
books—
A. F. Abercrombie, analysis, 227–232
analyses, examples, 232–237
keeping—
examples, 219–223, 226–232
regulation, 91
views of Paul V. Maris, summary, 351–352
Records—
borrower, Chambers County, analysis, 232–237
borrower, individual analysis, 232
importance, 351–352

Refinancing, amendment, 15–16, 291
Regional director, chief executive officer, 22
Rehabilitation borrowers, qualifications for loans, 20
Religious denominations, preservation of family-type farms, 2
Repayments. *See* Payments, variable.
Replacement insurance. *See* Insurance, replacement.
Reports, periodic F. O. 23–24
Resettlement Administration—
  experience utilized, 18
  replacement insurance, 283–284
Resettlement projects—
  farms too small, 18
  housing, 20
  sentiment toward, 18
  valuable lessons, 18–22
Roanoke Project, acreage, 19
Roosevelt, Franklin, D., President, committee on farm tenancy, 2
Roosevelt, Theodore, President, signing of Reclamation Act of 1902, 1
Ropesville Project, acreage, 19
Rural rehabilitation—
  contribution to farm ownership, 21
  staff, recruiting and coordination, 22–24

Sales, proceeds, application, 291–292
Schedule status of borrowers, definition, 290
Schools, County Committee, 66–67
Secretary of Agriculture—
  determination of average value of farms, 167
  function, assignment, 17
  plan for administering Act approved, 17–18
  power, 360–361
Securities, leases, 291–292
Security instrument, covenants, 292–293
Select Committee, H. R.—
  recommendations on loan limits, 182–183
  report on Farm Security Admin., 10
Senate, debate on B.–J. F. T. Act, 8–9
Share croppers—
  eligibility for loans, 95
  number on plantations, 143
  on tobacco farms, 33–35
Side agreements, policy, 280
Soil—
  conservation plans for F. O. borrowers, 196–197
  improvement, financing on F. O. farms, 197
Soil Conservation Service, cooperation with, 196–197
Spanish-Americans, loans, 105
Staff—
  initial F. O., 17–18
  recruiting for F. O. program, 22–23
State Farm Security Advisory Committees, recommendations re. percentage of loans, 102
Structures, destruction policy, 205–206
Subdividing large land holdings. *See* Multiple units; Plantations, subdividing.
Subdivisions—
  farms too small, 20
  See also Holdings; Plantations.
Summary, general, 350–355
Supervision—
  administrative problem, 244–249
  aim discussed, 107, 109
  amendment, objection by John E. Rankin, 7
  analysis of individual borrower records, 232
  authority, 78
  basic principles, 81–82
  benefits, 351
  comment by Select Committee, 79
  cost, relation to interest payments, 340–342
  definition, 82
  effectiveness, problem, 243–246
  examples cited, 211–241
  explanation by Harold D. Cooley, 10
  farm ownership loans, distinctive features, 78–83
  general philosophy, 82
  requirements from standpoint of borrower and lender, 107–108
  statement by John D. Black, 80–81
  testimony before subcommittee of Congress, 246–249
  value, disclosures of survey, 318–319
  views of Congress, clarification, 246–249
  views of Paul V. Maris, summary, 352
  views of Jamie L. Whitten, 247–249

Supervisors—
attitudes toward program, 304–305
county—
comment on program, 313–314
competency, 21–22
number, relation to number of borrowers, 341–342
relationships with borrowers, 22
responsibilities, 352
services, evaluation, 352
Survey of Corn Belt farms, 71–72
Survivorship rights, 280–281

Tarver, Malcolm C., Congr.—
loan limitation, 169–170
proponent of program, 168
proposal re. rights to alienate farms, 7–8
statement re. subdividing holdings, 149–150
views on loan limits, 168–170, 173, 175–177
Tarver limit. *See* Loan limits.
Taxation, provisions, 371
Taxes, payment, requirement, 282
Tenant Purchase Division, functions, 18
Tenant Purchase Staff, utilization of rural rehabilitation personnel, 21
Tenants, farm, speech by Wm. B. Bankhead, 3
Tenure—
land—
problem, meeting, 339
special committee, 2
status data, 94–97
system, improvement, 351
Tillery Project, acreage, 19
Titles—
defects, protection from, 277–279
examination by Solicitor, 278
insurance, 277–279
mineral rights, 279–280
Tobacco growing, share croppers, 33–35
Tours, value, 352
Transfer of second dwellings, 204–205
Understanding—
aid by signed agreement, 108–112
importance, 109–110
points involved, 110
prerequisite to obtaining loans, 107–113
with borrowers, views of Paul V. Maris, summary, 351
University of Hawaii, agreement with, 24
University of Puerto Rico, agreement with, 24

Variable payments. *See* Payments, variable.
Veterans—
disabled, loans, 13
eligibility for loans, 13
excepted from limitation on loans, 167
loan funds withheld, 14
preference—
authorization, 13
effect on loans to non-veterans, 343–344
regulation, 92

Wages, prevailing, payment, 37, 202
Wallace, Henry A., Secy. on Farmers Home Corporation Bd., 31
War, influence on construction, 203–204
War Production Board, order limiting construction, 203
Warner, H. H., administrative responsibilities, 24
Whitten, Jamie L., Congr.—
question on loan limit, 176
views on supervision, 247–249
Wilson, Woodrow, President, signing of Federal Farm Loan Act, 1
Wives of borrowers, attitudes toward program, 304
World War I, effects, 345

Yamhill Farms Project, Acreage, 19